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Fund of the United Nations International Drug Control Programme

Financial report and audited financial statements

for the biennium ended 31 December 2005 and

Report of the Board of Auditors

General Assembly
Official Records
Sixty-first Session
Supplement No. 5I (A/61/5/Add.9)

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Note

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10 May 2006

In accordance with financial regulation 11.4 of the United Nations and financial rule 15.3 of the Fund of the United Nations International Drug Control Programme, I have the honour to submit the audited financial statements of the Fund of the United Nations International Drug Control Programme for the biennium ended 31 December 2005.

Copies of these audited financial statements are made available to the Commission on Narcotic Drugs and the Advisory Committee on Administrative and Budgetary Questions.

(*Signed*) Antonio Maria **Costa**
Executive Director
United Nations Office on Drugs and Crime

The Chairman of the Board of Auditors
United Nations
New York

[28 July 2006]

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations International Drug Control Programme for the biennium ended 31 December 2005.

(*Signed*) Guillermo **Carague**
Chairman, Philippine Commission on Audit
Chairman, United Nations Board of Auditors

The President of the General Assembly of the
United Nations
New York

Chapter I

Report of the Executive Director

1. The Executive Director has the honour to submit the financial statements of the Fund of the United Nations International Drug Control Programme (UNDCP) for the biennium 2004-2005, in accordance with rule 15.3 of the financial rules of the Programme and General Assembly resolution 46/185 C of 20 December 1991.

Financial position

2. A summary showing income, expenditure and fund balances since the inception of the Fund in 1992 is presented in table 1 below. Income is received under two main categories, namely, general-purpose or unearmarked funds and special-purpose or earmarked funds. Table 1 compares income with expenditure under each funding category and shows the resultant fund balance by adding to or deducting net income or expenditure from the unspent balance of the previous year. Increased support from Member States is reflected in the upward income trend for 2004 and 2005 and, in particular, in increased special-purpose funding. As a result of measures initiated to improve programme implementation in 2004-2005, total expenditure kept pace with the increase in total income for 2004 and exceeded it in 2005 to reduce the total fund balance by $1.3 million (2 per cent) by the end of 2005 as compared with the balance at the start of 2004. The performance of both fund categories is further explained below.

Table 1

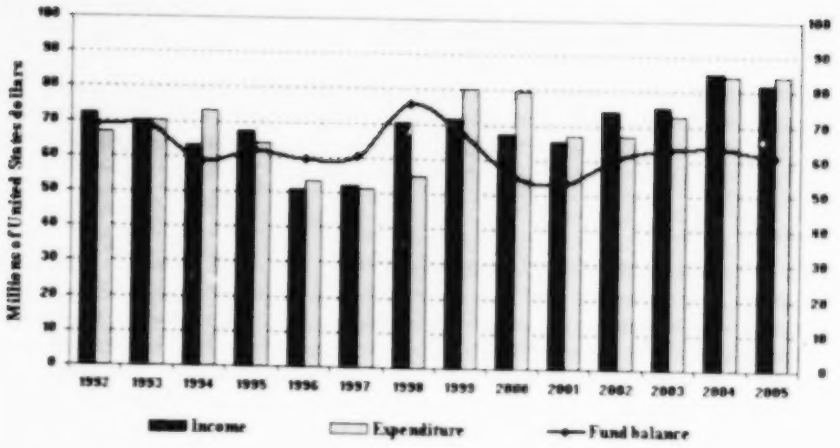
Fund of the United Nations International Drug Control Programme: income, expenditure and fund balance, 1992-2005

(Millions of United States dollars)

	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*
Income[a]														
General-purpose	20.2	34.3	19.0	18.3	19.7	17.2	17.1	16.5	18.1	13.2	15.0	18.4	18.5	14.9
Special-purpose	52.3	35.8	44.1	49.1	31.3	34.8	53.2	55.1	49.2	52.2	59.1	56.8	66.0	67.7
Total	**72.5**	**70.1**	**63.1**	**67.4**	**51.0**	**52.0**	**70.3**	**71.6**	**67.3**	**65.4**	**74.1**	**75.2**	**84.5**	**82.6**
Expenditure[b]														
General-purpose	18.4	18.7	22.2	22.2	20.0	18.5	20.3	24.1	22.0	20.4	16.3	15.9	20.1	17.9
Special-purpose	48.5	51.7	51.0	41.9	33.2	32.6	34.8	55.9	57.8	46.4	50.6	56.8	64.2	66.2
Total	**66.9**	**70.4**	**73.2**	**64.1**	**53.2**	**51.1**	**55.1**	**80.0**	**79.8**	**66.8**	**66.9**	**72.7**	**84.3**	**84.1**
Fund balance														
General-purpose	24.8	40.4	37.2	33.3	33.0	31.7	28.5	20.9	17.0	9.8	8.5	11.0	9.4	6.4
Special-purpose	44.1	28.2	21.3	28.5	26.6	28.8	47.2	46.4	37.8	43.6	52.1	52.1	53.9	55.4
Total	**68.9**	**68.6**	**58.5**	**61.8**	**59.6**	**60.5**	**75.7**	**67.3**	**54.8**	**53.4**	**60.6**	**63.1**	**63.3**	**61.8**

[a] Adjusted for refunds to donors and from 2002 adjusted to a cash basis for all contributions.

[b] Includes adjustments for prior-year expenditures/obligations and provisions.



General-purpose funds

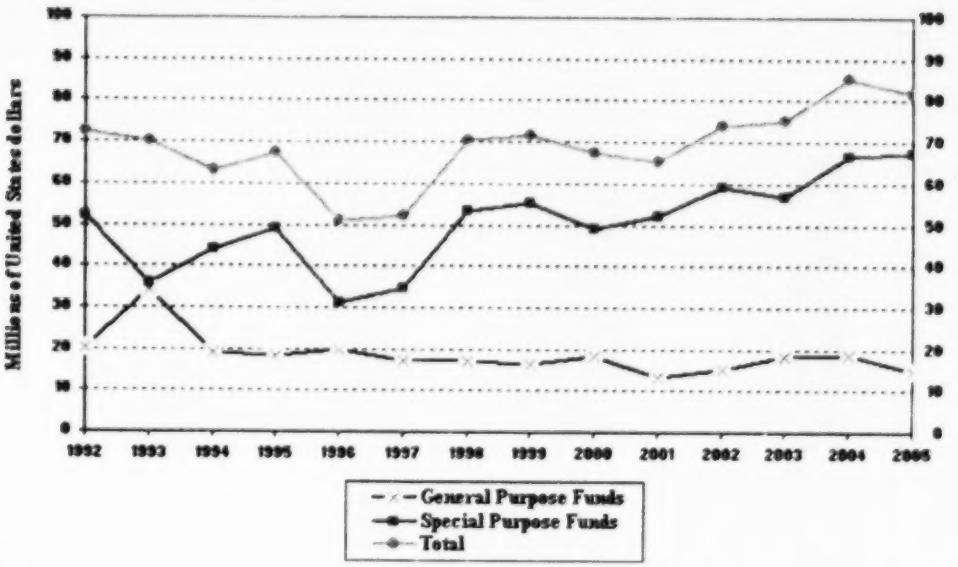
3. General-purpose funds are unearmarked voluntary contributions required to fund the infrastructure (support) budget and to provide programme flexibility by allowing investment in those priority areas which do not attract special-purpose or earmarked contributions. General-purpose fund contributions to the drug programme have been declining for years, both in absolute terms and relative to the earmarked contributions, a trend which is evident throughout the United Nations system. In the case of the drug programme, average annual general-purpose fund contributions were $21 million from 1992 to 1998, but only $16 million from 1999 to 2005. Earmarked or special-purpose fund income, on the other hand, increased from an annual average of $43 million (1992-1998) to $58 million (1999-2005), with substantial increases recorded for 2002-2005 (see figure I below). Thus, the United Nations Office on Drugs and Crime (UNODC) is implementing a growing programme (funded from special-purpose funds) with virtually the same infrastructure (funded from general-purpose funds). It has been possible so far to achieve this through increased efficiency but will no longer be sustainable if general-purpose funds income continues to decline.

Figure I

United Nations Office on Drugs and Crime

Drug programme: voluntary contributions, 1992-2005

(Millions of United States dollars)



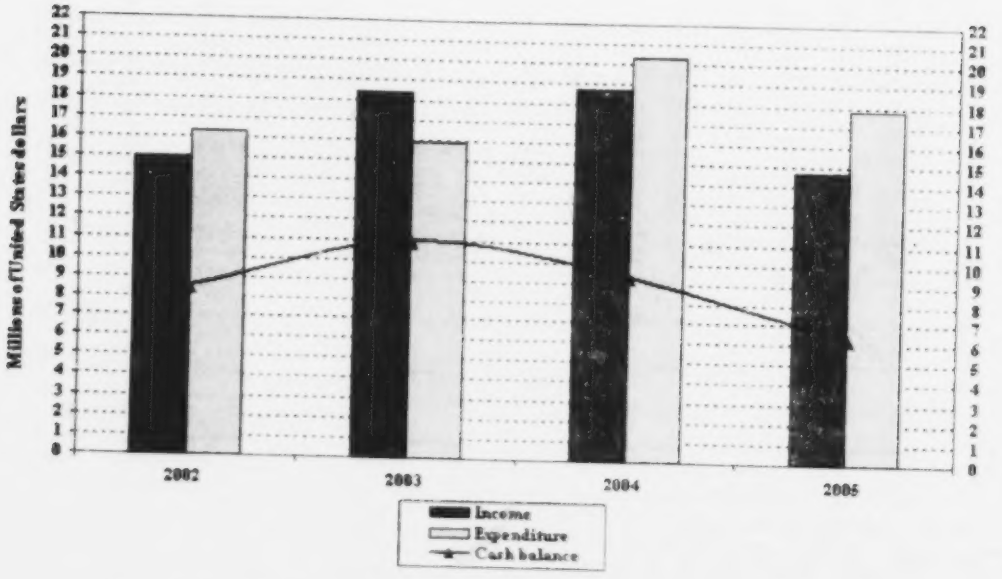
4. General-purpose fund income is also unpredictable, while the expenditure of such funds cannot be easily adjusted in line with changing income. For instance, general-purpose fund contributions increased by $3.5 million (23 per cent) from $15 million in 2002 to $18.5 million in 2004. However, general-purpose fund expenditure simultaneously increased by $3.8 million (23 per cent) from $16.3 million in 2002 to $20.1 million in 2004 owing mainly to higher salary costs, the depreciation of the dollar, other contingencies and the new fee structure of the United Nations Development Programme (UNDP). In 2005, the gap between general-purpose fund income ($14.9 million) and expenditure ($17.9 million) widened precariously. As a result, the general-purpose fund balance declined from $8.5 million in 2002 to $6.4 million by the end of 2005 (see figure II below).

Figure II

United Nations Office on Drugs and Crime

General-purpose funds: income and cash balances (2002-2005)

(Millions of United States dollars)



5. In fact, the deficit for 2005 would have been even greater as, in June 2005, a $7 million gap was forecast between the estimated 2005 income of $14 million and the projected expenditure of $21 million. This would have depleted the general-purpose fund balance to $2 million by the end of 2005, making it virtually impossible to fund even essential contractual commitments into 2006. To alleviate the pressure on the general-purpose fund, appeals to donors for increased contributions and a number of management actions initiated in 2005 arrested its depletion to $6 million. The situation improved to the tune of $4 million owing to the following factors:

(a) $1.3 million was shifted from the drug programme to the crime programme's general-purpose fund to share costs more equitably between the two funds;

(b) Actual income was $1.1 million higher ($14.7 million actual as compared with $13.6 million projected);

(c) Improved programme delivery yielded an additional $1 million in programme support charges;

(d) More special-purpose funds were mobilized for core programmes, thereby saving $0.4 million in general-purpose funds;

(e) Requests to host Governments to provide rent-free office space for UNODC field offices began to bear fruit.[1] The Government of Mexico contributed $0.2 million in 2005 towards the cost of the Regional Office for Mexico and Central America (Mexico City).

6. In order to prevent the recurrence of cyclical funding crises and to provide sustainable funding, a proposal intended to replace the current ad hoc method of general-purpose fund contributions was proposed to the major donors in June 2005. This proposal was designed to be equitable to donors and to preserve the multi-donor funding concept, as well as, importantly, to be sustainable by linking infrastructure costs to the financing of programmes. Since donor consensus could not be reached on the indicative contributions model, it has not been carried forward. However, dependence on unstable levels of voluntary income received at unpredictable times during the year is risky and unsettling. To cover fully ongoing annual commitments, the general-purpose fund balance needs to be rebuilt to $15 million.

Special-purpose funds

7. Special-purpose funds are earmarked to specific projects and/or activities. The earmarking of funds is either "soft" relative to a region or theme or "hard" relative to a specific project or even to a budget line. Currently, most donors contribute hard funding and only a few contribute soft funding, which constrains programming flexibility. Despite this constraint, special-purpose fund expenditure increased by $7.4 million (13 per cent) from $56.8 million in 2003 to $64.2 million in 2004. In 2005, a further increase of $2.0 million (3 per cent) was recorded over 2004, with special-purpose fund expenditure reaching its highest level ever of $66.2 million. These increases in special-purpose fund expenditure were, however, slightly more than offset by increases in special-purpose fund income resulting in the fund balance going up by $3.3 million (6 per cent) from $52.1 million in 2003 to $55.4 million at the end of 2005. That level of the special-purpose fund balance was necessary to cover $52.5 million of project budget allotments at the start of 2006.

Overview of budget performance

8. The budget distinguishes between its programme and support elements, which enables a comparison, based on the ratio of those two fundamentals, of how efficiently resources provided by Member States are deployed. The programme budget is represented by region and theme within a strategic framework using a results-based approach. The support budget is represented by the infrastructure needed to execute the programme of work.

9. Table 2 provides a comparison among:

(a) The initial budget planned in September 2003 and approved by the Commission on Narcotic Drugs in December 2003;

[1] The rents of the following field offices are paid from general-purpose funds: Afghanistan Country Office (Kabul); Colombia Country Office (Bogota); Regional Office for the Middle East and North Africa (Cairo); Regional Office for South Asia (New Delhi); Lao People's Democratic Republic Country Office (Vientiane); Myanmar Country Office (Yangon); Peru Country Office (Lima); Regional Office for Russia and Belarus (Moscow); and Regional Office for Southern Africa (Pretoria).

(b) The final budget based on actual expenditures for 18 months and estimates for the last 6 months of 2005 (as approved by the Commission on Narcotic Drugs in December 2005);

(c) The actual expenditure as reported in the financial statements.

10. Further analysis of budget and expenditure variances is provided in tables 4 and 5.

Table 2
Budget performance, 2004-2005
(Millions of United States dollars)

Item	*Initial budget 2004-2005 a*	*Final budget 2004-2005 b*	*Expenditure 2004-2005 c*	*Implementation rate d = (c/b x 100) (percentage)*
A. Programme budget				
Core programme	15.1	14.8	12.5	84
Technical cooperation programme	131.8	109.8	108.9	99
Total programme budget	**146.9**	**124.6**	**121.4**	**97**
B. Support budget	35.9	41.4	41.5	100
C. Agency support costs	4.6	4.1	4.0	98
Total	**187.4**	**170.1**	**166.9**	**98**

Overview of operational performance, 2004-2005

11. During the biennium 2004-2005, operational activities under the programme budget recorded expenditure of $121.4 million as compared with $102.3 million in 2002-2003, representing an increase of $19.1 million (19 per cent). The improvement in programme delivery reflects the results of systematic and periodic reviews of the programme budget and its implementation through 2004-2005. A comparison of operational activities expenditure by region is provided in table 3 below.

Table 3
Operational activities expenditure: all regions, 2002-2005
(Millions of United States dollars)

	Biennium			*Year*		
Region	*2002-2003*	*2004-2005*	*Percentage change*	*2004*	*2005*	*Percentage change*
Africa and the Middle East	8.8	13.1	49	6.4	6.7	5
Central and Eastern Europe	3.9	3.1	(21)	1.9	1.2	(37)
West and Central Asia	14.9	27.7	86	14.3	13.4	(6)
South Asia, East Asia and the Pacific	17.7	20.3	15	10.3	10.0	(3)
Latin America and the Caribbean	44.5	41.3	(7)	19.7	21.6	10
Core/global programmes	12.5	15.9	27	7.3	8.6	18
Total	**102.3**	**121.4**	**19**	**59.9**	**61.5**	**3**

12. Expenditure grew by 49 per cent in Africa in 2004-2005 as compared with 2002-2003 owing to an increased share in the programme budget requested by the Commission on Narcotic Drugs. It also reflects better programme delivery, with expenditure increasing by 5 per cent in 2005 over 2004. In Central and Eastern Europe, expenditure dropped by 21 per cent owing to the completion of major projects in counter-narcotics enforcement and constraints in funding new projects which caused a further 37 per cent expenditure decline between 2004 and 2005. In West and Central Asia, the major increase in expenditure of 86 per cent was under counter-narcotics enforcement projects that came on stream in 2004-2005, especially in Afghanistan and Central Asia. Expenditure in Asia (South and East Asia and the Pacific) grew 15 per cent, owing mainly to the coming on stream of many projects in HIV/AIDS prevention. In Latin America and the Caribbean, the 7 per cent drop in expenditure was accounted for mainly by the completion of a major project in Brazil on drug abuse and HIV/AIDS prevention. Under core/global programmes, a 27 per cent increase in expenditure is recorded mainly under drug abuse and HIV/AIDS prevention, the provision of information technology services for national drug control systems, the provision of legal advisory services and two new initiatives on project cycle management and strengthening the independent evaluation function. The expenditure breakdown of operational activities by region for 2004 and 2005 is provided in figures III and IV below.

Figure III
Operational activities in all regions, 2004
(Millions of United States dollars and percentage share)

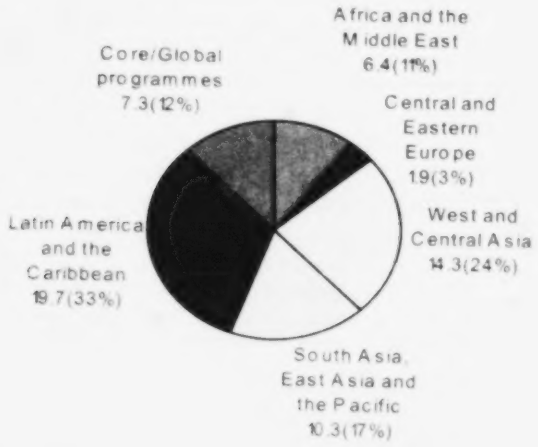

Africa and the Middle East 6.4(11%)
Core/Global programmes 7.3(12%)
Central and Eastern Europe 1.9(3%)
West and Central Asia 14.3(24%)
Latin America and the Caribbean 19.7(33%)
South Asia, East Asia and the Pacific 10.3(17%)

Figure IV
Operational activities in all regions, 2005
(Millions of United States dollars and percentage share)

Africa and the Middle East 6.7(11%)
Core/Global programmes 8.6(14%)
Central and Eastern Europe 1.2(2%)
West and Central Asia 13.4(22%)
Latin America and the Caribbean 21.6(35%)
South Asia, East Asia and the Pacific 10.0(16%)

Regular budget resources

13. In addition to the Fund, the work of the drug programme of UNODC is financed under the regular programme budget of the United Nations, with a total expenditure of $21 million during the biennium 2004-2005, as compared with $18 million in 2002-2003, representing a 17 per cent increase (see note 4 to the financial statements). Whereas the Fund supports technical cooperation programmes in international drug control, the regular budget funds mostly treaty implementation

and legal affairs. The Fund accounted for approximately 89 per cent of resources available to the drug programme of UNODC in 2004-2005, compared with approximately 11 per cent covered under the regular budget of the United Nations.

Statement I. Income, expenditure and changes in fund balances

14. As a result of improved programme delivery and careful financial management, total income exceeded total expenditure by only $0.5 million in 2004-2005, as compared with a $14.2 million excess of total income over expenditure in 2002-2003. While total income increased by $15.4 million (10 per cent) from $152.1 million in 2002-2003 to $167.5 million in 2004-2005, total expenditure increased by $29.1 million (21 per cent) from $137.9 million in 2002-2003 to $167 million in 2004-2005. Voluntary contributions increased by $20.8 million (19 per cent) from $112.4 million in 2002-2003 to $133.2 million in 2004-2005. Special-purpose fund contributions increased in 2004-2005 by $18.6 million (22 per cent) while general-purpose fund contributions increased by $2.2 million (8 per cent), as compared with 2002-2003. This was offset by a decrease of $4.8 million (77 per cent) in interest and miscellaneous income owing to exchange rate losses and reduced interest rates and a $0.6 million (2 per cent) decrease in cost-sharing contributions and public donations.

15. Under the general-purpose fund, there was a deficit of $2.8 million (8 per cent) because expenditure of $36.3 million exceeded income of $33.5 million in 2004-2005. This compares with a surplus of $2.8 million (9 per cent) in 2002-2003, when general-purpose fund income of $33.4 million exceeded expenditure of $30.6 million. The negative turnaround of $5.6 million was caused by expenditure increases between 2004-2005 and 2002-2003. General-purpose fund expenditures on the infrastructure budget increased by $8.3 million (25 per cent), from $32.7 million in 2002-2003 to $41 million in 2004-2005. The increase was due to uncontrollable factors, such as higher salary costs, the depreciation of the dollar, other contingencies, the new fee structure of UNDP and the need to strengthen field infrastructure and programme support at headquarters in Vienna, with which increased programme delivery was achieved in 2004-2005. However, programme expenditure from general-purpose funds was curtailed by $0.6 million (13 per cent), from $4.8 million in 2002-2003 to $4.2 million in 2004-2005, through the financing of most projects from only special-purpose funds.

16. Under the special-purpose fund, there was a net surplus in 2004-2005 of $3.3 million, as compared with a surplus of $11.4 million in 2002-2003. As noted in paragraph 11 above, improved programme delivery has resulted in much better utilization of special-purpose funds in 2004-2005.

Statement II. Assets, liabilities, reserves and fund balances

17. Statement II shows the assets, liabilities, reserves and fund balances as at 31 December 2005. As authorized by the Commission on Narcotic Drugs, a $12 million reserve was established and consolidated under the general-purpose fund as one operational reserve to protect the financial viability and integrity of the fund. The purpose and nature of the reserve is fully disclosed in note 16 to the financial statements. Compared with 2002-2003, the total fund balance decreased by $1.3 million (2 per cent) as a result of improved programme delivery. The continued decline of the general-purpose fund is, however, a cause for concern. A number of

cost-saving measures have been initiated, including the charging of local field infrastructure costs directly related to projects financed by special-purpose funds and the opening of local bank accounts at the field level in order to save substantial fees being charged by UNDP. Those two measures alone are expected to save up to $3 million of general-purpose funds in 2006.

Statement III. Cash flow

18. Total cash flow remained positive during 2004-2005, as both operating and investing activities produced a surplus. However, there was a net cash outflow of $5 million from general-purpose funds in 2004-2005 as compared with a net inflow of $6.2 million in 2002-2003. This reflects the impact of increased general-purpose fund costs with insufficient increase in general-purpose fund income between 2002-2003 and 2004-2005. For special-purpose funds, on the other hand, owing to increased net income, there was a net cash inflow of $12.1 million in 2004-2005 as compared with a net cash outflow of $1.7 million in 2002-2003.

Schedules

19. The financial statements are supported by five schedules.

Schedule 1

20. Schedule 1 shows the status of voluntary and cost-sharing contributions by donor. Income, which is recognized on a cash basis, is shown alongside the status of pledges to give a complete view of contributions by donor. Because collections exceeded new pledges in 2004-2005, total unpaid voluntary pledges decreased by $10.6 million (16 per cent) from $67.7 million in 2002-2003 to $57.1 million in 2004-2005. Outstanding cost-sharing pledges also decreased by $6.4 million (37 per cent) from $17.3 million in 2002-2003 to $10.9 million in 2004-2005 as collections also exceeded new pledges in 2004-2005.

Schedule 2

21. Schedule 2 shows the status of the final programme budget as approved by the Commission on Narcotic Drugs against expenditure broken down between general- and special-purpose funds. However, in order to further assess budget implementation, table 4 provides a summary showing both the initial and final programme budgets and the implementation rates, in terms of expenditure against the final budget, by sector and region. The initial programme budget was predicated on sufficient voluntary funds being available in time to fully implement the project portfolio planned in September 2003 for 2004-2005. It was also contingent on new projects coming on stream as planned in the initial budget for 2004-2005. Owing to those contingencies, and based on past implementation rates, it was estimated in the initial budget submission that only 80 per cent of the programme budget would be implemented. Performance against the initial programme budget in terms of actual expenditure shows an 83 per cent implementation rate, which reflects an overall improvement in programme delivery as compared with previous years.

Table 4
Programme budget and expenditure, 2004-2005
(Millions of United States dollars)

Item	*Initial budget 2004-2005 a*	*Final budget 2004-2005 b*	*Expenditure 2004-2005 c*	*Implementation rate d=(c/b x 100) (percentage)*
I. By theme				
A. Core programme				
1. Research, analysis and advocacy				
(a) Research and trend analysis	1.8	2.2	1.7	77
(b) Monitoring of illicit crops	1.1	1.5	1.5	100
(c) Laboratory and scientific services	0.5	0.7	0.5	71
(d) Advocacy	1.4	—	—	
Total 1	**4.8**	**4.4**	**3.7**	**84**
2. Services for policymaking and treaty adherence				
(a) Legal advisory services	1.2	1.7	1.6	94
(b) Information technology services	1.4	1.5	1.5	100
Total 2	**2.6**	**3.2**	**3.1**	**97**
3. Technical assistance and advice				
(a) Global challenges				
(i) HIV/AIDS	1.0	2.0	1.9	95
(ii) Prevention, treatment and rehabilitation	1.8	1.8	1.1	61
Subtotal 3 (a)	**2.8**	**3.8**	**3.0**	**79**
(b) Anti-trafficking				
Counter-narcotics enforcement	0.7	0.8	0.8	100
Subtotal 3 (b)	**0.7**	**0.8**	**0.8**	**100**
(c) Rule of law				
Anti-money-laundering	4.2	2.6	1.9	73
Subtotal 3 (c)	**4.2**	**2.6**	**1.9**	**73**
Total 3	**7.7**	**7.2**	**5.7**	**79**
Total core programme	**15.1**	**14.8**	**12.5**	**84**
B. Technical cooperation				
1. Research, analysis and advocacy				
(a) Research and trend analysis	—	1.0	0.7	70
(b) Monitoring of illicit crops	1.3	5.3	5.4	102
(c) Laboratory and scientific services	—	0.5	0.1	20
(d) Advocacy	—	1.1	1.5	136
Total 1	**1.3**	**7.9**	**7.7**	**97**

Item	Initial budget 2004–2005 a	Final budget 2004–2005 b	Expenditure 2004–2005 c	Implementation rate d = (c/b x 100) (percentage)
2. Services for policymaking and treaty adherence				
(a) Legal advisory services	—	0.3	0.4	133
(b) Information technology services		0.6		
Total 2	—	**0.9**	**0.4**	**44**
3. Technical assistance and advice				
(a) Global challenges				
(i) HIV/AIDS	14.1	15.0	19.2	128
(ii) Prevention, treatment and rehabilitation	30.1	17.9	17.7	99
(iii) Sustainable livelihoods	40.4	22.9	23.2	101
Subtotal 3 (a)	**84.6**	**55.8**	**60.1**	**108**
(b) Anti-trafficking				
Counter-narcotics enforcement	45.9	43.7	39.1	89
Subtotal 3 (b)	**45.9**	**43.7**	**39.1**	**89**
(c) Rule of law				
Anti-money-laundering	—	1.5	1.6	107
Subtotal 3 (c)	—	**1.5**	**1.6**	**107**
Total 3	**130.5**	**101.0**	**100.8**	**100**
Total technical cooperation	**131.8**	**109.8**	**108.9**	**99**
Total programme budget	**146.9**	**124.6**	**121.4**	**97**
II. By region				
A. Core programme				
Global	15.1	14.8	12.5	84
Total core programme	**15.1**	**14.8**	**12.5**	**84**
B. Technical cooperation programme				
Global	—	3.7	3.4	92
Africa and the Middle East	14.8	12.9	13.1	102
Central and Eastern Europe	4.0	3.4	3.1	91
West and Central Asia	38.1	32.1	27.7	86
South Asia, East Asia and the Pacific	25.3	21.1	20.3	96
Latin America and the Caribbean	49.6	36.6	41.3	113
Total technical cooperation	**131.8**	**109.8**	**108.9**	**99**
Total programme budget	**146.9**	**124.6**	**121.4**	**97**

Core programme

22. The core programme covers functions that are legislatively mandated, ongoing and global in range. An overall implementation rate of 83 per cent of the initial budget and an 84 per cent rate against the final budget was achieved under this programme, owing mainly to high salary costs, since posts are required to implement mandated, ongoing activities at headquarters. Expenditure on research and trend analysis and on laboratory and scientific services was reduced to minimum operating levels in order to save scarce general-purpose funds. The costs for advocacy were reclassified under the infrastructure budget as per audit recommendations. The provision of legal advisory services and technical assistance and advice on HIV/AIDS were increased owing to the availability of additional earmarked funding. Part of the anti-money-laundering programme, which was decentralized to field operations, was reclassified under the technical cooperation programme in the final budget.

Technical cooperation programme

23. Implementation rates for technical cooperation projects have historically averaged above 90 per cent against the final budget and, as table 4 demonstrates, a 99 per cent rate was achieved owing to increased delivery during the period under review. However, regional variations arise from a mix of different project portfolios, operating conditions and funding and implementing modalities. Thematically, some of the major variances in implementation rates can be explained as follows:

(a) *Global challenges: HIV/AIDS.* Expenditures were higher than expected by $4.2 million as compared with the final budget. The main reason was that cost-shared funds were provided earlier than anticipated for one large project in Brazil (BRAH34 — drug abuse, HIV/AIDS and STD prevention), resulting in faster implementation than planned;

(b) *Anti-trafficking and counter-narcotics enforcement.* Expenditures were under budget by $4.6 million, mainly in the counter-narcotics project portfolios of Afghanistan and Central Asia. In Afghanistan, one large project (AFGU10 — capacity-building for a functioning counter-narcotics criminal justice system) reprioritized $0.9 million of its budget under the drugs programme, since funds received for criminal justice work under the crime programme had to be utilized first in 2005. In Central Asia, a number of projects could not be launched on schedule owing to delays in the signing of project documents, the hiring of appropriate staff and consultants, and in procurement;

(c) *Research, analysis and advocacy.* The research project on data for Africa was delayed owing to a lack of funding, while expenditure on laboratory and scientific services was reduced to minimum operating levels in order to save scarce general-purpose funds. Under advocacy, additional funds were received and spent for special programme grants to drug abuse control activities outside the United Nations;

(d) *Services for policymaking and treaty adherence: information technology services.* Phase III of the Programme and Financial Management System project (ProFi), which covers substantive programmatic reporting, could not be started owing to a lack of funds.

Schedule 3

24. Schedule 3 shows programme expenditure and programme support costs by executing agency and funding source. Programme support costs increased by $3.3 million (33 per cent) from $9.9 million in 2002-2003 to $13.2 million in 2004-2005 as a result of higher programme expenditure on which such charges are made to recover support costs. The share of support-cost recovery of UNDCP increased by $2 million (28 per cent) from $7.2 million in 2002-2003 to $9.2 million in 2004-2005. This was because UNDCP implemented 61 per cent of the programme portfolio in 2004-2005 as compared with only 50 per cent in 2002-2003. Since UNDCP recovers 10 per cent in projects under its execution as compared with much lower rates on projects executed partly through other agencies, increases in its share of the portfolio result in higher recovery. In 2004-2005, however, UNDP unilaterally increased its support-cost charges for UNDCP projects implemented through UNDP by nearly $1 million, which resulted in an unforeseen loss to the general-purpose fund. On the other hand, recovery from the special-purpose fund increased by $2 million (29 per cent), from $6.9 million in 2002-2003 to $8.9 million in 2004-2005, because fewer general- and more special-purpose funds were committed to the programme budget. Thus, there was a net saving of $1 million to the general-purpose fund in 2004-2005.

Schedule 4

25. Schedule 4 covers the support budget, which finances the infrastructure of UNODC, as summarized in table 5.

Table 5
Infrastructure budget and expenditure, 2004-2005
(Millions of United States dollars)

Item	*Initial budget 2004-2005 a*	*Final budget 2004-2005 b*	*Expenditure 2004-2005 c*	*Implementation rate d=(c/b x 100) (percentage)*
Field office network	19.8	20.8	20.7	100
Programme support, headquarters	7.8	9.7	9.8	101
Total	**27.6**	**30.5**	**30.5**	**100**
Management and administration	8.3	10.9	11.0	101
Grand total	**35.9**	**41.4**	**41.5**	**100**

26. The increase of $5.6 million (16 per cent) from the initial budget of $35.9 million to expenditure of $41.5 million is accounted for as follows:

(a) Salary increases of $2.4 million approved by the General Assembly after the budget had been formulated (which included increases in both the salary scale and the post adjustment multiplier);

(b) Other operating costs and contingencies also increased by $1.3 million owing on the one hand to the weakening of the United States dollar, the main currency of income, vis-à-vis the euro, the main currency of expenditure and, on the other hand, to inflation.

(c) The strengthening of field offices with the addition of nine posts ($0.8 million) and headquarters with the addition of eight posts ($0.7 million). Without this strengthening of the field offices and programme support at headquarters in Vienna, which is necessary to backstop the programme in the fields, it would not have been possible to achieve the 19 per cent increase in programme budget delivery. All posts were approved by the Commission on Narcotic Drugs;

(d) Other net operating cost increases of $0.4 million with the most significant being the upgrading of field office security and the increased cost to maintain field office premises.

27. It should be noted that, except for the strengthening of field offices and programme support at headquarters in Vienna, all other factors contributing to higher expenditure were largely outside the control of the management of UNODC.

Schedule 5

28. Schedule 5 shows the status of operating funds advanced to executing agencies as at 31 December 2005. Advances to other implementing partner agencies decreased by $10.1 million (69 per cent), from $14.7 million in 2002-2003 to $4.6 million in 2004-2005, owing to better control over the advancement and recovery of those funds.

Notes to the financial statements

29. The financial statements include 20 notes. Note 2 describes the accounting policies applied in the preparation of the statements. Notes 3 to 20 provide additional information and clarification of the Programme's financial activities for which the Executive Director has administrative responsibility.

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the Fund of the United Nations International Drug Control Programme (UNDCP) and has also audited its financial statements for the biennium ended 31 December 2005.

The Board's main findings are as follows:

(a) Expenditures increased to $167 million in 2004-2005 (21 per cent) compared with the previous biennium;

(b) Expenditure increased faster than income, from $138 million to $167 million, resulting in a decrease of 96 per cent of excess of income over expenditure;

(c) Staff originating from North American and European countries represented 65.8 per cent of all staff in the Professional category in the United Nations Office on Drugs and Crime, with five countries alone providing 36.2 per cent of all staff;

(d) The total contributions outstanding at the end of the biennium amounted to $68 million, $21 million of which had been outstanding for more than two years;

(e) Contributions for the special-purpose fund (earmarked funds) increased by 15 per cent (from $114 million to $131 million), whereas the non-earmarked contributions for the general-purpose fund increased by only 0.2 per cent;

(f) The financial statements were prepared using two different sources, the Integrated Management Information System (IMIS) and the Programme and Financial Information Management System (ProFi), that were not fully reconciled at the time of the Board's audit. There was no standard operational procedure documented for the preparation of the statements to ensure that such reconciliation was conducted prior to the issuance of the statements;

(g) As at April 2006, the audit coverage for the 2004-2005 biennium had decreased, since it reached only 93 per cent of 2004 expenditures and 32 per cent of 2005 expenditures. In mid-July 2006, audit certificate coverage reached 99 per cent;

(h) The Board noted again the existence of an unauthorized bank account in Uzbekistan;

(i) No physical inventory count had been conducted at the headquarters of the United Nations Office on Drugs and Crime;

(j) There was room for improvement in the Office's procurement with regard to planning, vendor evaluation and solicitation and advertising tools; and

(k) Security features for information technology devices had not been tested.

The Board made recommendations to improve financial management and reporting and programme management in respect of the above findings and a number of less significant issues.

A list of the Board's main recommendations appears in paragraph 16 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the Fund of the United Nations International Drug Control Programme (UNDCP) for the biennium 2004-2005 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium ended 31 December 2005 had been incurred for the purposes approved by the governing bodies, whether income and expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules and whether the financial statements of UNDCP presented fairly its financial position as at 31 December 2005 and the results of the operations for the biennium ended, in accordance with United Nations system accounting standards.

3. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under financial regulation 7.5. The reviews focused primarily on general controls and procedures in place in the field and on programme and financial management at headquarters.

5. The audit was carried out at headquarters in Vienna and at the New York liaison office for the same period.

6. The Board continued its practice of reporting the results of specific audits in management letters containing detailed observations and recommendations to the administration. This practice allowed for an ongoing dialogue with the administration.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the administration, whose views have been appropriately reflected in the report.

8. A summary of the Board's main recommendations is contained in paragraph 16. The detailed findings and recommendations are reported in paragraphs 20-129.

1. Previous recommendations not fully implemented

Biennium ended 31 December 2003

9. In accordance with General Assembly resolutions 48/216 B of 23 December 1993 and 60/234 of 23 December 2005, the Board also reviewed the measures taken

by the administration to implement the recommendations made in its report for the period ended 31 December 2003. Details of action taken and the comments of the Board are included in the report and have been summarized in the annex to the present chapter. Of a total of 16 recommendations, 5 (31 per cent) had been implemented, while 11 (69 per cent) were under implementation by 5 May 2006.

Ageing of previous recommendations

10. The Board evaluated the ageing of its previous recommendations that had not yet been fully implemented, as requested by the Advisory Committee on Administrative and Budgetary Questions in its reports (see A/59/736, para. 8, and A/60/387, paras. 12 and 20). The annex to the present chapter indicates the financial period when such recommendations were first made.

11. Of the 11 recommendations not yet fully implemented, 3 (27 per cent) relate to the 2002-2003 period; 7 (63 per cent) to the 2000-2001 period; and 1 (9 per cent) to the 1998-1999 period. The Board's further comments on those specific outstanding recommendations are addressed below.

Monitoring of recommendations

12. In its report on the financial reports and audited financial statements and reports of the Board of Auditors for the period ended 31 December 2003 (see A/59/400), the Advisory Committee on Administrative and Budgetary Questions indicated that the administrations should continue to introduce and strengthen effective monitoring tools and to assign responsibility at the highest level of their management structure for implementation and follow-up to the Board's recommendations.

13. The United Nations Office on Drugs and Crime monitors the implementation of recommendations made by oversight bodies — the Joint Inspection Unit, the Office of Internal Oversight Services and the Board of Auditors — through a database using Lotus Notes software. This allowed the Office to track precisely the status of implementation of each recommendation. The Office considered that the database yielded the following benefits: automated reminder/follow-up facility; timely response to oversight recommendations; effective monitoring; a 30 per cent reduction in workload; and transparency. The Board noted, however, that although the database indicated which Offices were responsible for the implementation, it did not specify expected time frames.

14. **The Board recommends that the administration continue to enhance its monitoring of oversight bodies' recommendations by specifying time frames for the implementation of such recommendations.**

15. UNODC explained that there had been implementation circumstances beyond its control, such as dependencies on implementation partners and Governments.

2. Main recommendations

16. **The Board's main recommendations are that the United Nations Office on Drugs and Crime should:**

(a) Increase its efforts to achieve a more balanced geographical distribution of staff (para. 32);

(b) **Define a write-off policy of its long outstanding receivables and clear its old outstanding accounts receivable (para. 43);**

(c) **Pursue its efforts to increase contributions to finance the general-purpose funds (para. 49);**

(d) **Adjust its two information systems to avoid further discrepancies in expenditures (para. 55);**

(e) **Increase its project audit coverage of nationally executed expenditures with a view to ensuring timely receipt of audit certificates (para. 59);**

(f) **Comply with rules concerning the opening of bank accounts (para. 74);**

(g) **Conduct regular physical inventory counts at headquarters (para. 83);**

(h) **Establish procurement plans and develop advertisements to invite potential vendors to bid (para. 98).**

17. The Board's other recommendations appear in paragraphs 37, 39, 52, 60, 62, 64, 66, 71, 76, 80, 87, 91, 97, 100, 103, 105, 107, 110, 113, 116, 122, 127 and 129.

B. Background

18. The United Nations International Drug Control Programme was established, pursuant to General Assembly resolution 45/179 of 21 December 1990, to coordinate international action in the field of drug abuse control. With effect from 1 October 2002, the Office for Drug Control and Crime Prevention became the United Nations Office on Drugs and Crime.

19. The risk of a cash flow problem in the general-purpose fund of the United Nations Office on Drugs and Crime led the Board of Auditors to recommend in its report for the biennium 2000-2001 that the Office review its administrative and organizational structure to improve its cost-efficiency and effectiveness. The Secretary-General's bulletin of 15 March 2004 (ST/SGB/2004/6) detailed the new organizational structure of the Office. Its management and administrative services have been integrated with those of the United Nations Office at Vienna. The Administration of UNODC also coordinates the activities of the United Nations Interregional Crime and Justice Research Institute and implements the Crime Prevention and Criminal Justice Programme. The latter three entities are covered under the regular budget, as reported by the Board in its report on the financial statements of the United Nations.[2]

[2] See *Official Records of the General Assembly, Sixty-first Session, Supplement No. 5* (A/61/5), vol. I.

C. Detailed findings and recommendations

1. Financial overview

20. The Board performed an analysis of the financial position of the United Nations International Drug Control Programme as at 31 December 2005. The key financial indicators are set out in table 1.

21. Table 1 indicates the figures of the statement on income and expenditure and changes in reserves and fund balances over the past six years. Expenditures increased to $167 million in 2004-2005, an increase of 21 per cent compared with the previous biennium.

Table 1
Statement of income and expenditure and changes in reserves and fund balances for 2000-2005
(Millions of United States dollars)

	2000-2001	2002-2003	2004-2005	2005/2003 variance (percentage)	2005/2001 variance (percentage)
Total income	133.1	152.1	167.5	10	26
Total expenditure (on an accrual basis)	147	138	167	21	14
Excess (shortfall) of income over expenditure	-13.9	14.1	0.5	-96	n.a.
Prior year adjustments and net changes in provisions	0.1	-4.4	-1.8	-59	n.a.
Reserve and fund balances, end of year	65.4	75.1	73.8	-2	13
Reserves/expenditures/month	4.4	5.5	4.4	-19	

22. The rise in income was due to the increase in contributions for the special-purpose fund (earmarked funds), which grew by 15 per cent (from $114 million to $131 million) and to the non-earmarked contributions for the general-purpose fund, which increased by only 7.7 per cent (from $28.6 million to $30.8 million). The United Nations Office on Drugs and Crime considered that the declining share of general-purpose contributions severely curtails programme flexibility and effectively limits capacity to support the implementation of programmes funded almost exclusively from special-purpose contributions.

23. Expenditure increased faster than income, from $138 to $167 million, resulting in a decrease of excess of income over expenditure of 96 per cent. Figures on expenditure do not include regular budget expenditure ($21 million, an increase of 16 per cent compared with the previous biennium).

24. The change in the expenditure pattern was due mainly to the increase in programme and support costs. The percentage of support expenditure in the biennium reached 95 per cent of general-purpose income (compared with 77 per cent in 2002-2003). The expenditure charged on the support budget exceeded the approved final budget for the biennium by $75,247 (0.2 per cent), as disclosed in schedule 4 of the financial statements. Therefore, the Board is concerned over the level of resources available to support programme implementation.

Table 2
Key financial indicators

Description of ratio	*2000-2001*	*2002-2003*	*2004-2005*
Pledges outstanding/total assets[a]	1.01	1.02	0.82
Cash/liability[b]	1.29	1.18	1.19
Contingent liabilities/operational reserve[c]	0.81	0.71	0.73
Support expenditure/general purpose income[d]	0.86	0.77	0.95
Administrative and support expenditure/total expenditure[e]	0.25	0.26	0.27
General purpose contributions/total voluntary contributions[f]	0.26	0.25	0.23

[a] A low indicator depicts a healthy financial position.
[b] A high indicator reflects the extent of cash available to settle debts.
[c] A figure below 1 confirms the ability of the organization to cover contingent liabilities with its operational reserves.
[d] Including headquarters expenditure. A low indicator reflects the extent of non-earmarked funds to cover expenditure of a support nature.
[e] A low indicator depicts a flexible and programme-oriented organization.
[f] This indicator shows the ratio of non-earmarked contributions to total contributions to the United Nations Office on Drugs and Crime.

25. Table 2 shows that the financial position of UNODC as of 31 December 2005 is healthy but is a matter of concern only for the slight increase of support expenditures and the decrease of unearmarked contributions for the general-purpose fund. Regarding the increase in the ratio of administrative and support expenditure to total expenditure set forth in table 2, UNODC explained that the slight increase in this indicator over previous years does not necessarily depict a less flexible or less programme-oriented organization. Programme expenditure increased by 19 per cent in 2004-2005 over 2002-2003, but was more than offset by largely uncontrollable increases in salaries and exchange rate losses in support costs.

2. United Nations system accounting standards

26. The Board assessed the extent to which the financial statements conformed to the United Nations system accounting standards. The review indicated that the financial statements were consistent with the standards.

3. Follow-up to General Assembly resolutions

Governance arrangements

27. In its report on the consolidated budget for the biennium 2006-2007 for the United Nations Office on Drugs and Crime to the Commission on Narcotic Drugs, the Advisory Committee on Administrative and Budgetary Questions noted that UNODC implements drug and crime programmes in an integrated manner for the United Nations International Drug Control Programme and the United Nations Crime Prevention and Criminal Justice Programme, and recommended that thought be given to merging the two separate governing bodies into one for a more cohesive decision-making process and better integrated management of the two programmes (see E/CN.7/2005/13, para. 15).

28. At its forty-eighth and forty-ninth sessions, which were held from 7 to 9 December 2005 and from 13 to 17 March 2006 in Vienna, the Commission on Narcotic Drugs considered the report of the Advisory Committee on Administrative and Budgetary Questions on the consolidated budget for the biennium 2006-2007 for the United Nations Office on Drugs and Crime (see E/CN.7/2005/13). The Commission has not yet reached conclusions, and no specific information was provided on the governance issues in the financial statements.

Geographical distribution of staff

29. In its resolution 59/266 of 23 December 2004, the General Assembly requested the Board of Auditors to conduct an audit of the implementation of the principle of equitable geographical representation in the Secretariat at all levels, as set out in relevant resolutions of the General Assembly. The Board reviewed the matter at UNODC, which is a major organizational unit of the Secretariat, as per the provisions of the Secretary-General's bulletin of 12 September 1997 (ST/SGB/1997/5).

30. Although UNODC rightly stated that geographical distribution (the system of desirable ranges) is articulated more on the basis of unrepresented, underrepresented, and over-represented countries, the Board noted that in 2005, staff originating from North American and European countries represented 65.8 per cent of all staff in the Professional category in the United Nations Office on Drugs and Crime, with five countries alone providing 36.2 per cent of all staff. This was a deterioration from the situation observed in 2004, where the same countries accounted for 61.8 per cent of the staff in the Professional category and five countries alone represented 33.6 per cent of staff of that category.

31. The Office considered that the criteria governing the system of desirable ranges, as set out in section III of the Secretary-General's report of 11 September 1998 on the composition of the Secretariat (see A/53/375 and Corrs. 1 and 3), excludes it from the scope of geographical distribution as shown in the most recent report on the composition of the Secretariat (A/60/310). The Board considered nevertheless that there was room for improvement in the geographical distribution of staff in line with the provisions of Article 101 of the Charter of the United Nations, which states that due regard should be paid to the importance of recruiting the staff on as wide a geographical basis as possible.

32. **The Board recommends that the United Nations Office on Drugs and Crime increase its efforts to achieve a more balanced geographical distribution of staff.**

4. Contributions

33. In paragraph 25 of its report on the Fund of the United Nations International Drug Control Programme for the biennium ended 31 December 2001,[3] the Board recommended that UNODC account for contributions on an accrual rather than a cash basis. While this accounting practice was in line with the United Nations system accounting standards, the recommendation has not been implemented since the issue of adopting international accounting standards is still under consideration by the United Nations system.

[3] See ibid., *Fifty-seventh Session, Supplement No. 5I* (A/57/5/Add.9).

Accounting policy for voluntary contributions

34. According to note 2 to the financial statements, special-purpose contributions are recorded when received except for large special-purpose contributions received in advance. In that case, income is deferred to future periods as otherwise their exceptional size and nature would materially distort operational results and fund balances. The United Nations system accounting standards do not permit a different accounting treatment depending on the size of the contribution.

35. The Board noted that there was neither a definition of a material size nor an indication of a threshold for large contributions received in advance.

36. UNODC explained that the exception in their accounting policy on income recognition was required to account for previous contributions amounting to tens of millions of United States dollars as deferred income for projects planned for several years in the future or projects that were in the pipeline for launch in future years. The Office also considered that determining the materiality of contributions received in advance for the purposes of deferral was a practical matter of fact and not the definition of some hard and fast rule.

37. **The Board recommends that the United Nations Office on Drugs and Crime correctly reflect income not on the basis of the size of the contributions but in line with its accounting policy in order to make it consistent with the United Nations system accounting standards.**

Contributions in kind

38. The United Nations Office on Drugs and Crime disclosed voluntary contributions in kind with an estimated value of $52.7 million during 2004-2005 in a note to the financial statements. Those contributions in kind were composed mainly of premises ($17 million), staff ($4.3 million), utilities and equipment ($1.2 million) and various other types, such as construction, renovation, road infrastructure, maintenance and equipment ($28 million). The Board performed a test on a sample of contributions in kind and noticed that supporting documents from the donors were not always available to confirm the value of the contributions. Also, an internal control system has not been established to confirm donors' estimates of values. According to United Nations system accounting standard 35, such contributions (in kind) should be valued at a fair value, including the donor's valuation if appropriate, as best determined by the organization, and the basis for such valuation should be disclosed.

39. **The United Nations Office on Drugs and Crime took action on 2 May 2006 to put into operation the Board's recommendation to ensure that field offices retain supporting documents for contributions in kind and to implement internal control procedures to estimate the fair value of contributions in kind before their disclosure in the financial statements.**

Contributions receivable

40. Until 2001, general-purpose contributions were recorded as income on the basis of written pledges. With effect from 1 January 2002, general-purpose contributions have been recorded as income when received (on a cash basis) in order to apply consistently the accounting policy on the recording of income in trust funds and to recognize all contribution income on a more prudent basis. The total

contributions receivable at the end of the biennium amounted to $68 million, $21 million of which had been outstanding for more than two years (see table 3).

Table 3
Total outstanding contributions

	As at 31 December 2003	*As at 31 December 2005*	*Change (percentage)*
Total voluntary contributions outstanding	85 002 011	68 037 215	-20
European Union contributes	10 071 021	12 987 844	29
Percentage of European Union contributions to total	11.8	19.1	

41. Out of this amount, the Board noted that there were 26 pledges from the European Union totalling $12.99 million that had not been collected, 42 per cent of that amount ($5.4 million) going back prior to the year 2000. UNODC explained that it had supplied all necessary documentation and information and facilitated verification visits by the European Union on old outstanding amounts but that the verification process had taken an unduly long time and its final reports were still pending, despite many reminders on the part of UNODC. As a result, a substantial amount of old receivables had built up.

42. Considering the ageing of those contributions, UNODC should clean its accounts by writing off long outstanding pledges. There was, however, no policy on the write-off of long outstanding receivables.

43. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to define a write-off policy of its long outstanding receivables and clear its old outstanding accounts receivable.**

Fund-raising activities for non-earmarked funds

44. General-purpose funds are linked not to specific projects but to one of the global missions of UNODC: for instance, they can be allocated either to the fight against drugs or to the fight against crime. According to the guidelines received from the Committee on Narcotics and Drugs, general-purpose contributions have to be allocated first to support costs and thereafter to programmes.

45. Special-purpose funds are earmarked for specific projects and/or activities. The earmarking of funds is either "soft" relative to a region or theme or "hard" relative to a specific project or even to a budget line.[4]

46. UNODC explained that the preference of donors to provide earmarked instead of non-earmarked funds is a United Nations system-wide problem. UNODC frequently holds meetings with major donors to discuss the funding of the support budget. To find ways to increase its general-purpose funds, UNODC proposed in June 2005 to major donors the use of an indicative contributions model — more or less built by reference to assessed contributions — to prevent the recurrence of funding crises and to provide sustainable funding. The proposal was intended to replace the current ad hoc method of general-purpose fund contributions and was

[4] See ibid., *Fifty-ninth Session, Supplement No. 5I* (A/59/5/Add.9), para. 6.

designed to be equitable to donors, preserve the multi-donor funding concept, and, significantly, to be sustainable by linking infrastructure costs to the financing of programmes. Since donor consensus could not be reached on the indicative contributions model, it has not been adopted.

47. UNODC approached major, emerging and national donors directly to further solicit support for general-purpose funding. Whereas in June 2005, UNODC forecast a $7 million shortfall between the estimated 2005 general-purpose income of $14 million and projected general-purpose expenditures of $21 million, the actual general-purpose income was $14.9 million and expenditures were $17.9 million for that year owing to both increased contributions and savings.

48. According to UNODC, on 1 January 2006, the Office had insufficient funds at hand to meet the commitments emanating from the approved budget of the Commission on Narcotic Drugs. Current projections show that this insufficiency is likely to worsen, with only $5 million left at the end of 2006 to meet around $15 million worth of requirements for 2007. UNODC does not transfer a standard percentage of contributions received from Member States to the general-purpose fund (while, for instance, other organizations allocate to their general funds a portion of contributions by a reference to a percentage of the gross national product, as in assessed contributions).

49. **The Board recommends that the United Nations Office on Drugs and Crime pursue its efforts to increase contributions to finance the general-purpose funds.**

5. Miscellaneous income

50. According to UNODC financial rule 5.4, proceeds from the sale of programme or project equipment shall be credited to the accounts of that programme or project as a reduction of expenditure, provided such accounts are still open. If they are closed, the proceeds shall be credited to the fund account as miscellaneous income.

51. The Board found that the proceeds from the sale of drug identification kits, $164,410, had been wrongly recorded as miscellaneous income, although the programmes had not been closed. This led to overvalued charges on the programme, since the proceeds from those sales should have reduced the level of expenditures.

52. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to charge the proceeds from the sale of project equipment against project expenditure for active projects in line with its own financial rules.**

6. Expenditures

Reconciliation between databases

53. The financial statements were prepared using two different sources, the Integrated Management Information System (IMIS) and the Programme and Financial Information Management System (ProFi), which had not been fully reconciled at the time of the Board's audit. There was no standard operational procedure documented for the preparation of the statements to ensure that such reconciliation was conducted prior to the issuance of the statements.

54. There was a difference between IMIS and ProFi of $96,270, owing mainly to programme support costs. In IMIS, the programme support cost percentage is entered manually each time an allocation is posted. In ProFi, this percentage, which is part of the fixed chart field for each project segment, is entered when the project segment is established in the system. Therefore, all subsequent calculations in ProFi are done automatically with much less chance of manual error.

55. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to adjust both information systems to avoid further discrepancies in expenditures.**

7. Programme expenditure

56. The Board noted in its report on the Office's financial statements for the biennium 1998-1999[5] that the coverage of nationally executed expenditure by locally hired auditors was insufficient (expenditure of $14.2 million out of $18.3 million incurred through the United Nations Development Programme (UNDP) on nationally executed projects). The Board noted in its previous report that some audit reports remained pending for expenditures incurred in 2000-2001 and had recommended that the United Nations Office on Drugs and Crime follow up all audit reports on nationally executed expenditures outstanding for past bienniums. The Board noted that as of 31 May 2006, only one report covering expenditures amounting to $23,000 for the period 2002-2003 had not yet been received.

57. For the 2002-2003 biennium, the Office achieved a high rate of audit coverage for nationally executed expenditures. As of May 2004, the audit coverage was up to 98 per cent of expenditures. The Board noted that as at April 2006, the audit coverage for the 2004-2005 biennium had decreased since it reached only 93 per cent for 2004 expenditures and 32 per cent for 2005 expenditures, or 63 per cent for the biennium, as shown in table 4. In mid-July 2006, the audit certificate coverage reached 99 per cent.

Table 4
Nationally and intergovernmental/non-governmental organization-executed projects, audited expenditure for the biennium 2004-2005
(United States dollars)

	2004			*2005*			*2004-2005*
	Nationally executed expenditure	*INGO*	*Total*	*Nationally executed expenditure*	*INGO*	*Total*	*Total*
A. Expended	11 313 922	1 513 417	12 827 339	11 672 345	387 390	12 059 735	24 887 074
B. Audited	11 155 533	788 758	11 944 291	3 523 631	322 424	3 846 055	15 790 346
Audit coverage (B/A) (percentage)	99	52	93	30	83	32	63

Source: UNODC.

[5] See ibid., *Fifty-fifth Session, Supplement No. 5I* (A/55/5/Add.9).

58. **The Board recommends that the United Nations Office on Drugs and Crime increase its project audit coverage of nationally executed expenditures with a view to ensuring the timely receipt of audit certificates.**

Advances to be recovered

59. UNODC reported that for 38 completed projects, the amount of advances to partners to be recovered was $1.85 million. The Board's examination of 12 projects revealed that $1.63 million was to be recovered (88 per cent of the total amount). On average, the completion end year of those projects was 1996. Such old advances should have been either written off or recovered.

60. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to improve financial closure of completed projects.**

61. UNDP provided accounting and reporting services for field support and project budgets representing $86.12 million (51 per cent of the total expenditure of the United Nations Office on Drugs and Crime). The breakdown of expenditure established by category of expenditure showed a $343,776 discrepancy with UNDP expenditure reports for 2004 (or a minor 0.8 per cent of annual expenditure).

62. **The Board recommends that the United Nations Office on Drugs and Crime continue to closely monitor the implementation of its operations so as to detect and correct any discrepancy in expenditure reports.**

Unfunded projects

63. In its report for 2000-2001, the Board expressed its concern at the number of unfunded projects and recommended that the Office take drastic measures to bring such projects to a manageable level.[6] Progress has been made for all programmes initiated since 2000, whether fully funded or unfunded, and authorized expenditures exceeded funds collected by approximately $7.2 million, compared with $9.2 million in 2002-2003 and $65 million in 2000-2001. This was due to early cancellations of projects with no funding prospects. In 2004, the number of cancellations was 56, while in 2005 the number was 28.

64. **The Board commends the United Nations Office on Drugs and Crime for the results already achieved and recommends that it continue its efforts in this regard.**

8. Unliquidated obligations

Field offices

65. According to note 14 to the financial statements, the unliquidated obligations of field offices amounted to $1.27 million, or 37 per cent of all unliquidated obligations, which is a decrease of 40 per cent since the previous biennium. In its report on the biennium 2002-2003[7] the Board again raised the matter of the financial statements of the Office, noting the lack of procedures to ensure completeness and timeliness in the recording of field obligations. The United Nations Office on Drugs and Crime had agreed with the Board's previous

[6] See ibid., *Fifty-seventh Session, Supplement No. 5I* (A/57/5/Add.9), para. 52.

[7] See ibid., *Fifty-ninth Session, Supplement No. 5I* (A/59/5/Add.9), paras. 46 and 47.

recommendation to review its procedures in order to properly account for field offices' obligations and to comply with accrual accounting. From a sample review of audit reports of 42 per cent of the reporting agencies on nationally executed expenditures for 2004-2005, the Board noticed that the audited financial statements did not mention which accounting rules had been used to establish the statements.

66. **The Board recommends that external auditors of nationally executed expenditures refer explicitly to United Nations accounting standards to ensure that audited expenditures include disbursements and unliquidated obligations.**

67. UNODC disagreed with the recommendation, because the Office records expenditures on nationally executed projects on a cash basis.

9. Cash and bank accounts

Accrued interest from the euro pool

68. As indicated in note 2 (k) to the financial statements, surplus funds in excess of current needs are placed in the United Nations investment pool (for offices away from headquarters) and managed through investment pooling and, in July 2005, the investment pool was diversified to include investments in euros and in United States dollars.

69. The Board noted that the accrued interest recorded in the financial statements covered only accrued interest from the United States dollar investment pool ($995,773), whereas accrued interest as at 31 December 2005 from the euro investment pool (€148,096 equivalent to $224,208) was recorded as income. As per specific accounting guidelines from New York Headquarters for the euro cash pool, accrued interest from this pool had to be recorded as income.

70. As a consequence, the same transaction is accounted for in the financial statements in two different ways depending on the currency. This was not in line with the principle of substance over form set forth in the United Nations system accounting standards that transactions should be accounted for and presented in accordance with their substance and financial reality and not merely with their legal form.

71. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to correctly account for accrued interest on the euro cash pool.**

Opening of bank accounts

72. In the report for 2004,[8] the Board indicated its concern over the breakdown in internal controls at the Office with regard to two instances of unauthorized and unreported use of field office bank accounts and made a recommendation to correct that shortcoming.

73. The Board again noted the existence of an unauthorized bank account in Uzbekistan. Moreover, UNODC has difficulties in providing basic documentation and information on local bank accounts, such as official designations of signatory panels, acknowledgment by the banks of those panels and the number of bank

[8] See ibid., *Fifty-ninth Session, Supplement No. 5I* (A/59/5/Add.9), paras. 52 and 53.

accounts opened locally. This situation is a matter of concern at a time when the United Nations Office on Drugs and Crime is considering the possibility of opening more local bank accounts and has already started to do so.

74. **The United Nations Office on Drugs and Crime agreed with the Board's reiterated recommendation to (a) comply with the rules concerning the opening of bank accounts, (b) improve the monitoring of the situation at the level of field offices.**

Petty cash accounts

75. The Board noted that the day-to-day management of petty cash accounts (1 in Brussels and 1 in New York replenished with €1,000 and $2,000, respectively) did not always comply with the Controller's guidelines and instructions covering petty cash operations, especially as regards the threshold per transaction, the balance at biennium end and the use of funds solely for the purpose for which they were authorized. In 2005, the limit of $200 per transaction was exceeded systematically in the Brussels office, and twice in the New York office. The closing balance of the petty cash fund in Brussels was not brought to nil as of 31 December 2005, which is contrary to the guidelines. In addition, although the petty cash account in Brussels had been authorized to pay only phone and Internet bills, it was also used to cover the cost of miscellaneous office maintenance.

76. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to strictly adhere to the guidelines on the use of petty cash accounts.**

10. Liabilities for end-of-service and post-retirement benefits

77. Contingent liabilities for end-of-service and post-retirement benefits amounted to $8.7 million as at 31 December 2005. A contingency liability of $1.3 million (subject to actuarial valuation, which was still pending as of 15 May 2006) representing roughly the present value of the costs of after-service health insurance that would be incurred by the Organization as at 31 December 2005, is shown under note 16.

78. Following a recommendation made by the Board in its previous report, the United Nations Office on Drugs and Crime participated in the United Nations-sponsored actuarial valuations of the contingent liabilities under the after-service health insurance programme for its extrabudgetary trust funds.

79. However, Headquarters informed the Office on 17 April 2006 that, because of issues emanating from census data submissions, the valuation would be resubmitted after the data had been reviewed. It was also confirmed by the Accounts Division at United Nations Headquarters that the 2003 valuations should be used, with an indication that the 2005 information would be provided shortly. UNODC decided to follow the same approach.

80. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation that it ensure that its reserves cover the total of all after-service liabilities.**

11. Non-expendable property

81. The total value of non-expendable property amounted to $15.6 million as at 31 December 2005, compared with $14.4 million at the end of the previous biennium, or an increase of 8 per cent, owing mainly to an increase in the need for equipment for the field offices.

82. Headquarters non-expendable property amounted to $2 million as at 31 December 2005. The Board noted that no physical inventory count had been conducted at the headquarters of the United Nations Office on Drugs and Crime as required by United Nations instructions on property management (see ST/AI/374 and ST/AI/2003/5).

83. **The Board recommends that the United Nations Office on Drugs and Crime conduct regular physical inventory counts at headquarters.**

84. UNODC disagreed with this recommendation, considering that it would not provide any value-added service to conduct physical checks. The Office explained that the inventory database lists all items (computers, cell phones, special printers and devices, cars, etc.), signed out to individuals who, when they leave the organization, must account for such items before receipt of their final payments.

12. Write-off of losses of cash, receivables and property

85. There were no write-offs of cash or receivables. The Office provided the Board with details of $11.7 million worth of non-expendable property (excluding items with values of less than $1,500) that had been written off during the 2004-2005 biennium: 97 per cent of that property was transferred to Governments in line with financial rule 105.22 (e). Non-expendable equipment was written off on the basis of original cost under the terms of financial rule 106.9.

86. The Board noted that contrary to financial rule 105.21, $20,578 worth of property had been written off due to theft loss (86 per cent of that category) without the decision of the Property Survey Board.

87. **UNODC agreed with the Board's recommendation to take the necessary steps to ensure full compliance with United Nations financial rule 105.21.**

13. Ex gratia payments

88. There were no ex gratia payments during the biennium ended 31 December 2005.

14. Procurement

89. There was no officially designated procurement section for the United Nations Office on Drugs and Crime. Procurement for headquarters was carried out by four staff members of the United Nations Office in Vienna. Total procurement for the two Offices amounted to $9 million in services and $7 million in goods.

Procurement plans

90. According to United Nations financial rule 105.14, there should be acquisition planning for developing an overall procurement strategy and procurement methodologies. The United Nations Procurement Manual (para. 8.1.1) considers that

procurement planning is essential for the effective and timely solicitation of bids or proposals, award of contracts and delivery of the goods and services required and that requisitioners are responsible for the development of procurement plans. There were no procurement plans for UNODC.

91. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation that it establish procurement plans.**

Evaluation of vendors

92. According to the Procurement Manual, vendors must be evaluated before sending any solicitation documents and after contracting in order to maintain the vendor database. For this purpose, a Vendor Review Committee has to be established and a local Vendor Database Officer designated.

93. Those principles were not strictly applied by the procurement unit, which explained that every new vendor which is not in the United Nations global system of vendors (managed by United Nations Headquarters) is asked to fill in a form and to provide information. However, from a sample of 32 vendors, the Board noted that only 16 were registered in the United Nations global system during the biennium 2004-2005. Among the other 16, only 2 had submitted the registration forms sent by the purchase and contracts unit and only 1 had provided all the information requested, together with supporting documents (commercial, technical and financial evaluations).

Solicitation procedure

94. From a sample test on 17 per cent of the purchase orders and contracts awarded during the 2004-2005 biennium, the Board noted shortcomings in solicitation procedures for 6 per cent of its sample. In one case, involving $114,407, the Board noted that the requisitioner had undertaken price negotiations with a vendor, which is contrary to the provisions of the Procurement Manual.[9] In another case, involving the amount of $62,292, the procurement unit only requested quotations instead of using the invitation to bid procedure.[10]

Tender committee

95. There was no tender committee, which is contrary to the provisions of the Financial Rules (rule 105.14) and the Procurement Manual (para. 10.6).

96. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to strictly comply with the provisions of the Procurement Manual.**

Advertisement

97. From the same sample test, the Board noted that the purchase and contract unit had never used advertisements through newspapers or the Internet, even for purchases involving significant amounts, and preferred to directly solicit vendors. This is allowed by financial rule 105.14, as long as it is authorized by the Secretary-General (according to financial regulation 5.13, tenders for equipment, supplies and

[9] See United Nations Procurement Manual, sect. 9.11.1.

[10] See ibid., sect. 9.4.2 (2) (a).

other requirements should be invited by advertisement, except where the Secretary-General deems that, in the interests of the Organization, a departure from this regulation is desirable). The authorization of the Secretary-General was not on file.

98. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to develop advertisements to invite potential vendors to bid.**

Award procedure

99. From the sample reviewed, the Board noted that for 7 per cent of the contract awards, the technical evaluation had been poorly documented and limited to short e-mails without any mention of the criteria set forth in the terms of reference. According to the Procurement Manual the evaluation committee should conduct the technical evaluation and prepare a written report thereof, describing the relative weight of the competing proposals and ranking the competitors from best to worst.

100. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to document the technical evaluation results as required by the Procurement Manual in order to ensure transparency.**

15. Information and communication technology fraud prevention and management

101. The Board reviewed information and communication technology fraud prevention and management in UNODC and noted some shortcomings that should be addressed.

Policies and compliance

102. The Board noted that UNODC had not been following official directives related to the prevention of fraud.[11] Notwithstanding cases in which UNODC has developed its own equivalent policies covering the control of information, ethics, fraud and financial responsibility, there is a risk that UNODC may be operating in the absence of appropriate policies.

103. **The Board recommends that the United Nations Office on Drugs and Crime develop, complement or update those policies that address the management of the risk of electronic misconduct by consulting policy templates.**

104. UNODC accepts that the measures set forth in the Secretary-General's bulletin on the use of information and communication technology resources and data (ST/SGB/2004/15) and other policies may not be updated on a basis timely enough to keep up with emerging information and communication technology risks and new forms of fraud, such as phishing (the theft of valuable information, such as credit card numbers, social security numbers, logins and passwords), that targets organizations through their staff.

105. **The Board recommends that the United Nations Office on Drugs and Crime review its security policies every year to determine if they continue to properly address risks.**

[11] See ST/AI/189, ST/AI/397, ST/IC/2005/19, ST/SGB/1994/272, ST/SGB/2004/15 and General Assembly resolution 59/562.

106. Responsibility for validating the credentials and trustworthiness of people before granting them access to networks and systems rests with the hiring manager. There is no approach other than checking the three references provided by candidates for staff positions. There is no procedure to screen interns, consultants or contractors. This practice appears to apply to individuals who are granted extensive rights, such as the creation of accounts and the assignment of access rights to others.

107. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to implement stronger procedures to validate credentials, including for non-staff members, particularly for individuals who are granted privileged access rights (database and systems administrators and other super-users).**

Building protective features into computer systems

108. There was no independent validation of security features in applications designed or customized to meet the specific requirements of UNODC.

109. UNODC has taken several steps to ensure that applications are designed and managed to protect the security and confidentiality of data. However, the current quality of documentation and the lack of steps to validate security features designed or customized to meet the requirements of UNODC should be improved. In addition, the lack of a consistent change control process and multiple and disparate applications development practices should be addressed.

110. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to implement formal practices to ensure that security is given due attention in the design, development and/or customization of applications and databases.**

111. Access to systems is controlled through a combination of user name and password. Despite the ready availability of keystroke loggers and other forms of spyware, UNODC has not yet considered alternatives to authenticate system users and does not currently enforce password maintenance rules owing to user resistance.

112. In the absence of proper audits on password sharing and disclosure, no factual knowledge exists on the extent of the problem, although UNODC admitted that the writing down of passwords continues to be practised.

113. **The Board recommends that the United Nations Office on Drugs and Crime conduct tests with password breaking software in the immediate future to determine if reliance on passwords provides an adequate level of security.**

114. UNODC did not provide reports indicating that formal tests had been conducted to match available access rights with the persons authorized to use them. It is therefore not clear to what extent dormant accounts or the access rights of individuals who have left the Organization have been duly terminated.

115. For applications developed or customized outside the Organization, UNODC stated that the integrity of access to functionality or data is not tested.

116. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to test the integrity of access to functionality or data in all applications developed or customized outside the Office.**

16. Division for Policy Analysis and Public Affairs

117. The Division comprises two branches. The Public Affairs and Inter-Agency Branch manages relations with Member States and international institutions through the Advocacy Section, the Co-financing and Partnership Section and the New York liaison office. The Policy Analysis and Research Branch comprises four sections: the Laboratory and Scientific Section, the Research and Analysis Section, the Independent Evaluation Unit and the Strategic Planning Unit. The creation of the latter two units was the result of the increasing awareness of UNODC of the need for evaluation and strategic planning. The Board evaluated the first results of this orientation.

Independent Evaluation Unit

118. The Board reviewed 9 of the 27 reports issued by the Unit from 2003 to May 2005. On the one hand, in 2003, all the evaluation reports were focused on projects related to a single country or region, for example, strengthening the control capacity of the Russian Federal border service along the border between Afghanistan and Tajikistan. This prevalence was partly explained by the influence of donor States, who wished to evaluate the projects they co-financed. Seven of the evaluation reports noted the lack of measurable achievement indicators to establish a definite success level.

119. On the other hand, 3 out of the 27 reports issued focused on the global policy of UNODC: (a) the fight against money-laundering; (b) the fight against the trafficking of human beings; and (c) the dissemination of information material and toolkits by the Office. The reports highlighted the lack of a global strategy and of truly global programmes, pointing out that plans are developed on a yearly basis and cover short-term activities.

120. UNODC promotes the creation of performance indicators, in accordance with the conclusions of the evaluation reports mentioned above. In addition, the strategic framework defines numerous indicators for each unit or section of the organization. However, not all of the indicators are based on the final results of projects. The 2004-2005, programme budget defines indicators that are more specific but still not results-based.

121. UNODC regularly publishes estimates of illicit drug production, trafficking and abuse and trends in crime and criminal justice systems. Such estimates and trends enable Member States (as an international community) to assess the results of interventions to prevent and control illicit drugs and crime.

122. **The Board recommends that UNODC develop achievement indicators aimed at measuring the direct effects of the technical cooperation projects and activities implemented in line with the regulations and rules governing programme planning.**

123. UNODC reported that on the levels of both project/activity and organizational strategy, focused efforts towards results orientation and performance measurements are well under way. A series of workshops for staff and management at headquarters and in field offices will introduce both the culture and skills necessary for implementation and monitoring. It is expected that the midterm strategy will be endorsed in early 2007 and that the accompanying biennium business plan, including results-linked projects, will be put in place.

Review of the New York office

124. The Board audited the liaison office in New York, taking into account the concern expressed by the General Assembly in its resolution 58/270 of 23 December 2003, in which it requested the Secretary-General to review the structure and functions of all liaison or representation offices in New York of organizations headquartered elsewhere funded from the regular budget and to report to the Assembly.

125. In response to that request, the Secretary-General submitted a report to the General Assembly (see A/59/395). The review concluded that the office (a) interacts substantively with other United Nations partners at Headquarters, including the United Nations Development Group, the Executive Committee on Economic and Social Affairs, the United Nations Development Assistance Framework and intergovernmental bodies, (b) promotes the objectives of the Office on Drugs and Crime among delegations at Headquarters and maintains close liaison with the international financial institutions in Washington, D.C., to ensure their continuing support for anti-money-laundering activities and for business plans for international drug control, and (c) also interacts with non-United Nations entities in North America, including United States government departments, academic institutions, think tanks and other civil society organizations.

126. The workplan of the Division for Policy Analysis and Public Affairs included the New York liaison office. It outlined its objectives for the period from 1 January 2005 to 31 March 2006. The general purpose of the workplan was to describe the work to be done according to the terms of reference of the Division, and it included expected results, target dates and achievement mechanisms. The Board noted, however, that there were no indicators of achievement for the New York office, which means that UNODC could not monitor the implementation of the tasks listed in the above-mentioned report. Since the Board's audit, the Office has undertaken to update its workplan.

127. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to ascertain that concrete and time-bound objectives are included in the workplans of its New York office.**

128. In his report, the Secretary-General indicated that the New York office had two staff members. The Board noted that in fact six staff work in the office. The consolidated budget of the office for 2004-2005 was $1.08 million, comprising UNODC regular budget resources corresponding to $481,300, the financing of the posts of one P-5 and one G-5, plus UNODC extrabudgetary resources equalling $598,500, the financing of the posts of one P-3 and one G-5, and operating costs. In addition, there was a Programme Officer (L-2, Associate Expert financed by a Member State) and a Crime Prevention Expert (L-3, an extrabudgetary post financed by the UNODC Vienna Terrorism Prevention Branch).

129. **The Board recommends that the United Nations Secretariat include all staff members in future reports on liaison offices.**

17. Fraud and presumptive fraud

130. The Administration reported to the Board that no case of fraud or presumptive fraud had been found during the financial period ended 31 December 2005.

D. Acknowledgement

131. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
Lead Auditor

(*Signed*) Guillermo N. **Carague**
Chairman of the Board
Chairman, Philippine Commission on Audit

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

28 July 2006

Note: Messrs. Carague and Fakie have signed only the original English version of the report. Mr. Séguin has signed both French and English versions.

Annex

Status of implementation of recommendations for the financial period ended 31 December 2003[a]

Topic	*Financial period first reported*	*Implemented*	*Under implementation*	*Not implemented*	*Total*	*Reference in the present report*
Follow-up of programme expenditure	2002-2003	Para. 34			1	
Relations with UNDP	2002-2003	Para. 36			1	
Reclassification of expenditure	2002-2003	Para. 41			1	
Recording of obligations	2002-2003		Para. 47		1	Paras. 53-55
Bank accounts	2002-2003		Para. 53		1	Paras. 72-74
Change of bank accounts	2002-2003	Para. 58			1	
Liabilities for end-of-service and post-retirement benefits	1998-1999		Para. 63		1	Paras. 77-80
Non-expendable equipment	2002-2003		Para. 65		1	Paras. 81-84
Calculation of the financial delivery rate	2000-2001		Para. 72		1	
Ongoing projects — programming/collections	2000-2001		Para. 80		1	Para. 64
Follow-up audit reports on nationally executed expenditure outstanding	2000-2001		Para. 90		1	Paras. 56-58
Nationally executed projects — controls and requirements	2000-2001		Para. 96		1	Paras. 56-58
Audit reports on nationally executed expenditure — consistency and form	2000-2001		Para. 99		1	Paras. 56-58
Qualified audit reports	2000-2001		Para. 104		1	
Cash and bank account management	2000-2001		Para. 106		1	Paras. 72-74
Field financial reporting	2000-2001	Para. 110			1	
Total						
Number		**5**	**11**	**0**	**16**	
Percentage		**31**	**69**	**0**	**100**	

[a] See Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5I (A/59/5/Add.9), chap. II.

Chapter III
Audit opinion

We have audited the accompanying financial statements of the Fund of the United Nations International Drug Control Programme, comprising statements I to III, schedules 1 to 5 and the supporting notes for the biennium ended 31 December 2005. The financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and in conformity with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examination, on a test basis and as considered by the auditor to be necessary in the circumstances, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Executive Director, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund of the United Nations International Drug Control Programme as at 31 December 2005 and the results of its operations and its cash flows for the biennium then ended in accordance with the United Nations System Accounting Standards.

Furthermore, in our opinion, the transactions of the Fund of the United Nations International Drug Control Programme that have come to our notice, which we have tested as part of our audit have in all other significant respects been in accordance with the Financial Regulations and Rules and legislative authority.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements of the Fund of the United Nations International Drug Control Programme.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
Lead Auditor

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

28 July 2006

Note: The South African and Philippine members of the Board of Auditors have signed only the original English version of the present audit opinion. The French Board member has signed both the English and French versions.

Chapter IV
Certification of the financial statements

10 May 2006

I certify that the appended audited financial statements of the Fund of the United Nations International Drug Control Programme, numbered I to III, the notes and the supporting schedules are correct based on our records and certified reports from other executing agencies.

(*Signed*) Antonio Maria **Costa**
Executive Director
United Nations Office on Drugs and Crime

Chapter V

Financial statements for the biennium ended 31 December 2005

Abbreviations used in the financial statements

AKF	Aga Khan Foundation
AU	African Union
CAMH	Centre for Addiction and Mental Health
CICP	Centre for International Crime Prevention
ECSWPR	European Centre for Social Welfare Policy and Research
FAO	Food and Agriculture Organization of the United Nations
GILEAD	Gilead Church
IFND	International Federation of NGOs for the Prevention of Drugs and Substance Abuse
ILO	International Labour Organization
IMO	International Maritime Organization
NCA	Norwegian Church Aid
OPEC	Organization of Petroleum Exporting Countries
PROFA	Asociación Dominicana Pro-Bienestar de la Familia
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDCP	United Nations International Drug Control Programme
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNOPS	United Nations Office for Project Services
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNICRI	United Nations Interregional Crime and Justice Research Institute
UPU	Universal Postal Union
USAID	United States Agency for International Development
WC	World Concern
WCO	World Customs Organization
WFP	World Food Programme
WHO	World Health Organization
WSB	World Scout Bureau

Statement I

Income, expenditure and changes in fund balances for the biennium 2004-2005

(United States dollars)

	Note	*General-purpose: Support* *a*	*General-purpose: Programme* *b*	*Special-purpose: Programme* *c*	*Total* *d=(a+b+c)*	*Total 2002-2003*
Income						
Voluntary contributions (schedule 1)	2 (f)	29 441 737	1 387 281	102 395 020	133 224 038	112 424 727
Cost-sharing contributions (schedule 1)		—	—	29 201 850	29 201 850	30 979 972
Support cost income (schedule 3)	2 (m)	9 224 282	—	—	9 224 282	7 221 700
Public donations	5	—	—	3 678 913	3 678 913	2 479 857
Interest income	6	2 614 576	—	887 560	3 502 136	5 050 215
Miscellaneous income	7	30 195	—	(2 173 927)	(2 143 732)	1 130 064
Consolidation elimination:						
Support cost income	2 (m)	(9 224 282)	—	—	(9 224 282)	(7 221 700)
Total income		**32 086 508**	**1 387 281**	**133 989 416**	**167 463 205**	**152 064 835**
Expenditure						
Programme budget (schedule 2)		—	4 174 050	117 299 883	121 473 933	102 295 651
Programme support cost:						
Agencies (schedule 3)		—	4 595	3 977 604	3 982 199	2 652 803
UNDCP (schedule 3)		-	308 383	8 915 899	9 224 282	7 221 700
Biennial infrastructure budget (schedule 4)		41 002 407	—	505 039	41 507 446	32 959 080
Consolidation elimination:						
Support cost charges	2 (m)	(8 915 899)	(308 383)	—	(9 224 282)	(7 221 700)
Total expenditure		**32 086 508**	**4 178 645**	**130 698 425**	**166 963 598**	**137 907 534**
Excess of income over expenditure		—	(2 791 364)	3 290 991	499 627	14 157 301
Other changes in fund balances:						
Savings on prior year's obligations		—	141 158	—	141 158	684 164
Refund to donors	2 (n)	—	—	(342 891)	(342 891)	(2 808 670)
Prior period adjustments	3	—	(976 363)	—	(976 363)	(940 942)
Inter-fund adjustments	8	—	(140 496)	140 496	—	—
Net change in provisions	9	—	(781 241)	148 587	(632 654)	273 121
Extraordinary charges		—	—	—	—	(1 645 467)
Net changes in fund balances		—	(4 548 306)	3 237 183	(1 311 123)	9 719 507
Fund balances 1 January		—	10 969 143	52 171 784	63 140 927	53 421 420
Fund balances, 31 December 2005	**10**	—	**6 420 837**	**55 408 967**	**61 829 804**	**63 140 927**

Statement II

Assets, liabilities and reserves and fund balances as at 31 December 2005

(United States dollars)

	Note	General-purpose	Special purpose	Total	Total 2004
Assets					
Cash and term deposits	11	1 150 879	3 767 623	4 918 502	9 101 266
Investments	12	19 498 474	49 493 279	68 991 753	57 753 502
Accounts receivable:					
Due from the United Nations General Fund		1 498 923	—	1 498 923	—
Accrued interest		995 774	—	995 774	596 057
Other accounts receivable and deferred charges	13	633 111	466 871	1 099 982	432 013
Other assets:					
Operating funds advanced to executing agencies (schedule 5)		—	5 284 944	5 284 944	14 920 751
Total assets		**23 777 161**	**59 012 717**	**82 789 878**	**82 803 589**
Liabilities					
Unliquidated obligations	14	608 266	2 836 340	3 444 606	3 838 213
Accounts payable:					
Due to the United Nations General Fund		—	—	—	354 298
Other accounts payable	15	4 748 058	40 002	4 788 060	3 298 535
Other liabilities:					
Operating funds due to executing agencies (schedule 5)		—	727 408	727 408	171 616
Total liabilities		**5 356 324**	**3 603 750**	**8 960 074**	**7 662 662**
Reserves and fund balances					
Reserves					
Operational reserve	16	12 000 000	—	12 000 000	12 000 000
		12 000 000	—	12 000 000	12 000 000
Fund balances					
Ongoing support and project commitments	10	6 420 837	55 408 967	61 829 804	63 140 927
	17	6 420 837	55 408 967	61 829 804	63 140 927
Total reserves and fund balances		**18 420 837**	**55 408 967**	**73 829 804**	**75 140 927**
Total liabilities, reserves and fund balances		**23 777 161**	**59 012 717**	**82 789 878**	**82 803 589**

Statement III

Cash flow for the biennium 2004-2005

(United States dollars)

	General purpose	*Special purpose*	*Total*	*Total 2003*
Cash flows from operating activities				
Net excess (shortfall) of income over expenditure	(2 791 364)	3 290 991	499 627	14 157 301
Decrease/(increase) in net operating funds advanced to executing agencies	452 222	9 738 377	10 191 599	(6 059 635)
Decrease/(increase) in contributions receivable	—	—	—	940 942
Decrease/(increase) in other accounts receivable	(201 098)	(466 871)	(667 969)	30 871
(Decrease)/increase in unliquidated obligations	(112 578)	(281 029)	(393 607)	(1 337 802)
Increase/(decrease) in other accounts payable	1 598 110	(108 585)	1 489 525	1 471 391
Less: interest income	(2 614 576)	(887 560)	(3 502 136)	(5 050 215)
Net cash (outflow) from operating activities	**(3 668 284)**	**11 285 323**	**7 617 039**	**4 152 853**
Cash flows from investing activities				
Increase/(decrease) in amount due to United Nations General Fund	(1 853 221)	—	(1 853 221)	321 244
(Increase)/decrease in accrued interest	(399 717)	—	(399 717)	(583 479)
Add: interest income	2 614 576	887 560	3 502 136	5 050 215
Net cash inflow from investing activities	**361 638**	**887 560**	**1 249 198**	**4 787 980**
Cash flows from other sources				
Savings on prior biennium's obligations	141 158	—	141 158	684 164
Refund to donors	—	(342 891)	(342 891)	(2 808 670)
Prior period adjustment	(976 363)	—	(976 363)	(940 942)
Inter-fund adjustments	(140 496)	140 496	—	—
Decrease/(increase) in provisions	(781 241)	148 587	(632 654)	(1 372 346)
Net cash (outflow) from other sources	**(1 756 942)**	**(53 808)**	**(1 810 750)**	**(4 437 794)**
Net increase (decrease) in cash, term deposits and investments	**(5 063 588)**	**12 119 075**	**7 055 487**	**4 503 039**
Cash and term deposits, 1 January 2004	**25 712 941**	**41 141 827**	**66 854 768**	**62 351 729**
Cash, term deposits and investments, 31 December 2005	**20 649 353**	**53 260 902**	**73 910 255**	**66 854 768**

Schedule 1

Voluntary contributions for the biennium 2004-2005

(United States dollars)

	Income			*Pledges*				
Contributor	*General-purpose* a	*Special-purpose* b	*Total* c = (a+b)	*Outstanding 1 January 2004* d	*Pledges made in 2004-2005 and adjustment of prior pledges* e	*Collections in 2004-2005* f = c	*Adjustment for exchange rate fluctuations*[a] g	*Outstanding 31 December 2005* h = (d+e+f+g)
Algeria	20 000	—	20 000	—	30 000	(20 000)	—	10 000
Australia	601 600	2 301 858	2 903 458	988 485	1 914 973	(2 903 458)	—	—
Austria	282 367	1 236 744	1 519 111	—	1 519 111	(1 519 111)	—	—
Bahamas	950	—	950	—	950	(950)	—	—
Bangladesh	2 000	—	2 000	1 000	1 000	(2 000)	—	—
Belgium	252 289	487 563	739 852	207 143	540 447	(739 852)	(7 738)	—
Bolivia	—	—	—	9 000	—	—	—	9 000
Cambodia	—	9 000	9 000	—	9 000	(9 000)	—	—
Cameroon	1 663	—	1 663	1 903	—	(1 663)	(240)	—
Canada	806 094	2 188 269	2 994 363	801 525	2 961 928	(2 994 363)	(38 321)	730 769
China	122 345	23 076	145 421	—	145 421	(145 421)	—	—
Colombia	80 000	—	80 000	—	80 000	(80 000)	—	—
Croatia	1 000	—	1 000	—	1 000	(1 000)	—	—
Czech Republic	162 407	243 610	406 017	—	406 017	(406 017)	—	—
Denmark	1 633 657	2 446 028	4 079 685	663 567	3 409 296	(4 079 685)	6 822	—
Egypt	—	—	—	2 000	(1 000)	—	—	1 000
European Commission	—	2 641 370	2 641 370	10 071 021	4 847 773	(2 641 370)	710 420	12 987 844
Finland	274 426	1 886 077	2 160 503	660 422	2 330 963	(2 160 503)	(2 462)	828 420
France	1 879 929	2 026 435	3 906 364	—	3 906 364	(3 906 364)	—	—
Germany	1 469 161	1 061 369	2 530 530	560 058	2 988 222	(2 530 530)	—	1 017 750
Greece	35 000	—	35 000	—	35 000	(35 000)	—	—
Hungary	—	—	—	—	—	—	—	—
India	119 950	—	119 950	60 000	119 975	(119 950)	(25)	60 000
Ireland	726 411	727 736	1 454 147	—	1 454 147	(1 454 147)	—	—
Israel	20 000	—	20 000	—	20 000	(20 000)	—	—
Italy	6 899 625	13 722 185	20 621 810	—	20 621 810	(20 621 810)	—	—
Japan	2 597 799	2 940 461	5 538 260	2 000 000	3 538 260	(5 538 260)	—	—
Kuwait	5 000	—	5 000	10 000	10 000	(5 000)	—	15 000
Lao People's Democratic Republic	2 000	3 000	5 000	1 000	5 000	(5 000)	—	1 000
Lebanon	5 000	—	5 000	—	5 000	(5 000)	—	—
Liechtenstein	—	50 000	50 000	—	250 000	(50 000)	—	200 000
Luxembourg	—	2 993 030	2 993 030	1 123 594	2 082 828	(2 993 030)	(13 392)	200 000

	Income			Pledges				
Contributor	General-purpose	Special-purpose	Total	Outstanding 1 January 2004	Pledges made in 2004-2005 and adjustment of prior pledges	Collections in 2004-2005	Adjustment for exchange rate fluctuations[a]	Outstanding 31 December 2005
	a	*b*	*c = (a+b)*	*d*	*e*	*f = e*	*g*	*h = (d+e+f+g)*
Malaysia	60 000	—	60 000	—	60 000	(60 000)	—	—
Malta	601	—	601	—	601	(601)	—	—
Mexico	200 000	200 000	400 000	—	400 000	(400 000)	—	—
Monaco	20 000	—	20 000	—	20 000	(20 000)	—	—
Morocco	9 000	—	9 000	6 000	3 000	(9 000)	—	—
Myanmar	—	14 667	14 667	—	14 667	(14 667)	—	—
Netherlands	—	163 473	163 473	16 414	147 059	(163 473)	—	—
New Zealand	139 840	—	139 840	—	139 840	(139 840)	—	—
Norway	2 303 249	925 271	3 228 520	377 924	2 853 170	(3 228 520)	(2 574)	—
Pakistan	3 021	—	3 021	—	3 021	(3 021)	—	—
Panama	7 667	—	7 667	—	7 667	(7 667)	—	—
Poland	—	10 000	10 000	—	10 000	(10 000)	—	—
Portugal	50 000	—	50 000	—	50 000	(50 000)	—	—
Qatar	—	—	—	—	250 000	—	—	250 000
Republic of Korea	150 000	—	150 000	—	150 000	(150 000)	—	—
Russian Federation	528 600	471 400	1 000 000	—	1 000 000	(1 000 000)	—	—
Saudi Arabia[b]	149 954	—	149 954	—	149 954	(149 954)	—	—
Singapore	10 000	—	10 000	—	10 000	(10 000)	—	—
Slovenia	—	—	—	1 263	(1 263)	—	—	—
Spain	244 640	828 308	1 072 948	—	2 220 523	(1 072 948)	—	1 147 575
Sri Lanka	10 000	—	10 000	—	10 000	(10 000)	—	—
Sweden	2 466 561	13 204 631	15 671 192	—	15 671 192	(15 671 192)	—	—
Switzerland	153 975	166 921	320 896	80 000	320 896	(320 896)	(1 875)	78 125
Thailand	40 000	20 000	60 000	—	60 000	(60 000)	—	—
Tunisia	4 952	—	4 952	—	4 952	(4 952)	—	—
Turkey[c]	200 000	700 000	900 000	—	900 000	(900 000)	—	—
United Arab Emirates	50 000	—	50 000	—	50 000	(50 000)	—	—
United Kingdom of Great Britain and Northern Ireland	—	7 917 598	7 917 598	2 819 982	5 723 009	(7 917 598)	(12 485)	612 908
United States of America	6 006 285	40 784 940	46 791 225	47 180 925	38 591 129	(46 791 225)	—	38 980 829
Venezuela (Bolivarian Republic of)	20 000	—	20 000	20 000	10 000	(20 000)	—	10 000
Total voluntary	**30 829 018**	**102 395 020**	**133 224 038**	**67 663 226**	**122 062 902**	**(133 224 038)**	**638 130**	**57 140 220**

	Income			Pledges				
Contributor	*General purpose* a	*Special purpose* b	*Total* c = a+b	*Outstanding 1 January 2004* d	*Pledges made in 2004-2005 and adjustment of prior pledges* e	*Collections in 2004-2005* f = c	*Adjustment for exchange rate fluctuations*[a] g	*Outstanding 31 December 2005* h = d+e+f+g
Cost-sharing								
Antigua and Barbuda	—	119 575	119 575	119 575	—	(119 575)	—	—
Bolivia	—	—	—	230 828	—	—	—	230 828
Brazil	—	19 122 479	19 122 479	14 644 925	13 010 911	(19 122 479)	—	8 533 357
Colombia	—	533 978	533 978	559 135	549 261	(533 978)	—	574 418
Libyan Arab Jamahiriya	—	1 400 000	1 400 000	—	1 400 000	(1 400 000)	—	—
Mexico	—	75 047	75 047	—	75 047	(75 047)	—	—
Peru	—	2 380 328	2 380 328	1 642 822	2 130 776	(2 380 328)	(734)	1 392 536
United Arab Emirates	—	290 700	290 700	—	290 700	(290 700)	—	—
UNAIDS	—	5 279 743	5 279 743	141 500	5 304 099	(5 279 743)	—	165 856
Total cost-sharing	—	**29 201 850**	**29 201 850**	**17 338 785**	**22 760 794**	**(29 201 850)**	**(734)**	**10 896 995**

[a] For pledges made in currencies other than United States dollars, adjustment for exchange rate fluctuations includes changes in pledge values on collection and on revaluation of outstanding pledges.

[b] Includes pledges and collections of $50,000 meant for the year 2006.

[c] In addition to $900,000 received in 2004-2005, Turkey has contributed $500,000 in 2003 meant for the year 2004, which was included in the financial statements for 2002-2003.

Schedule 2

Programme budget for the biennium 2004-2005

(United States dollars)

Item	General-purpose			Special-purpose			Total		
	Budget 2004-2005	*Expenditure 2004-2005*	*Balance*	*Budget 2004-2005*	*Expenditure 2004-2005*	*Balance*	*Budget 2004-2005*	*Expenditure 2004-2005*	*Balance*
By theme									
A. Core programme									
1. Research, analysis and advocacy									
Research and trend analysis	1 351 600	1 285 509	66 091	781 400	455 640	325 760	2 133 000	1 741 149	391 851
Monitoring of illicit drug crops	615 400	540 627	74 773	910 400	980 707	(70 307)	1 525 800	1 521 334	4 466
Laboratory and scientific services	703 000	445 823	257 177	30 400	30 516	(116)	733 400	476 339	257 061
Total A.1	**2 670 000**	**2 271 959**	**398 041**	**1 722 200**	**1 466 863**	**255 337**	**4 392 200**	**3 738 822**	**653 378**
2. Services for policymaking and treaty adherence									
Legal advisory services	—	—	—	1 664 400	1 547 869	116 531	1 664 400	1 547 869	116 531
Information technology services	1 442 300	1 201 014	241 286	75 200	312 288	(237 088)	1 517 500	1 513 302	4 198
Total A.2	**1 442 300**	**1 201 014**	**241 286**	**1 739 600**	**1 860 157**	**(120 557)**	**3 181 900**	**3 061 171**	**120 729**
3. Technical assistance and advice									
(a) Global challenges									
HIV/AIDS	—	—	—	2 004 400	1 937 008	67 392	2 004 400	1 937 008	67 392
Prevention treatment and rehabilitation	310 400	357 292	(46 892)	1 489 400	790 284	699 116	1 799 800	1 147 576	652 224
Subtotal 3 (a)	**310 400**	**357 292**	**(46 892)**	**3 493 800**	**2 727 292**	**766 508**	**3 804 200**	**3 084 584**	**719 616**
(b) Anti-trafficking									
Counter-narcotics enforcement	282 100	132 684	149 416	528 600	673 388	(144 788)	810 700	806 072	4 628
(c) Rule of law									
Anti-money-laundering	128 100	145 879	(17 779)	2 499 500	1 753 235	746 265	2 627 600	1 899 114	728 486
Total A.3	**720 600**	**635 855**	**84 745**	**6 521 900**	**5 153 915**	**1 367 985**	**7 242 500**	**5 789 770**	**1 452 730**
Total A	**4 832 900**	**4 108 828**	**724 072**	**9 983 700**	**8 480 935**	**1 502 765**	**14 816 600**	**12 589 763**	**2 226 837**

Item	General-purpose			Special-purpose			Total		
	Budget 2004-2005	Expenditure 2004-2005	Balance	Budget 2004-2005	Expenditure 2004-2005	Balance	Budget 2004-2005	Expenditure 2004-2005	Balance
B. Technical cooperation programme									
1. Research, analysis and advocacy									
Research and trend analysis	8 300	18	8 282	985 900	706 687	279 213	994 200	706 705	287 495
Monitoring of illicit drug crops	8 900	84 589	(75 689)	5 245 100	5 284 816	(39 716)	5 254 000	5 369 405	(115 405)
Laboratory and scientific services	—	—	—	510 600	40 766	469 834	510 600	40 766	469 834
Advocacy	—	—	—	1 093 200	1 518 343	(425 143)	1 093 200	1 518 343	(425 143)
Total B.1	**17 200**	**84 607**	**(67 407)**	**7 834 800**	**7 550 612**	**284 188**	**7 852 000**	**7 635 219**	**216 781**
2. Services for policymaking and treaty adherence									
Legal advisory services	—	—	—	285 700	375 778	(90 078)	285 700	375 778	(90 078)
Information technology services	353 000	—	353 000	225 900	—	225 900	578 900	—	578 900
Total B.2	**353 000**	**—**	**353 000**	**511 600**	**375 778**	**135 822**	**864 600**	**375 778**	**488 822**
3. Technical assistance and advice									
(a) Global challenges									
HIV/AIDS	—	602	(602)	15 040 200	19 247 726	(4 207 526)	15 040 200	19 248 328	(4 208 128)
Prevention treatment and rehabilitation	—	(20 801)	20 801	17 904 000	17 746 041	157 959	17 904 000	17 725 240	178 760
Sustainable livelihoods	—	—	—	22 865 000	23 196 104	(331 104)	22 865 000	23 196 104	(331 104)
Subtotal 3 (a)	**—**	**(20 199)**	**20 199**	**55 809 200**	**60 189 871**	**(4 380 671)**	**55 809 200**	**60 169 672**	**(4 360 472)**
(b) Anti-trafficking									
Counter-narcotics enforcement	—	814	(814)	43 672 900	39 130 523	4 542 377	43 672 900	39 131 337	4 541 563
(c) Rule of law									
Anti-money-laundering	—	—	—	1 540 900	1 572 164	(31 264)	1 540 900	1 572 164	(31 264)
Total B.3	**—**	**(19 385)**	**19 385**	**101 023 000**	**100 892 558**	**130 442**	**101 023 000**	**100 873 173**	**149 827**
Total B	**370 200**	**65 222**	**304 978**	**109 369 400**	**108 818 948**	**550 452**	**109 739 600**	**108 884 170**	**855 430**
Total programme (A+B)	**5 203 100**	**4 174 050**	**1 029 050**	**119 353 100**	**117 299 883**	**2 053 217**	**124 556 200**	**121 473 933**	**3 082 267**

Item	General-purpose			Special-purpose			Total		
	Budget 2004-2005	Expenditure 2004-2005	Balance	Budget 2004-2005	Expenditure 2004-2005	Balance	Budget 2004-2005	Expenditure 2004-2005	Balance
By region									
Global	325 400	18	325 382	3 388 500	3 349 777	38 723	3 713 900	3 349 795	364 105
Africa and the Middle East	—	(38 080)	38 080	12 897 500	13 086 899	(189 399)	12 897 500	13 048 819	(151 319)
Central and Eastern Europe	—	—	—	3 389 000	3 108 528	280 472	3 389 000	3 108 528	280 472
West and Central Asia	—	2 257	(2 257)	32 127 500	27 713 647	4 413 853	32 127 500	27 715 904	4 411 596
South/East Asia and the Pacific	31 600	23 435	8 165	20 993 500	20 309 269	684 231	21 025 100	20 332 704	692 396
Latin America and the Caribbean	13 200	77 592	(64 392)	36 573 400	41 250 828	(4 677 428)	36 586 600	41 328 420	(4 741 820)
Core programmes	4 832 900	4 108 828	724 072	9 983 700	8 480 935	1 502 765	14 816 600	12 589 763	2 226 837
Total programme	**5 203 100**	**4 174 050**	**1 029 050**	**119 353 100**	**117 299 883**	**2 053 217**	**124 556 200**	**121 473 933**	**3 082 267**

Schedule 3

Programme expenditure and programme support costs by executing agency and source of funds for the biennium 2004-2005

(United States dollars)

	Programme			*Programme support cost*								
				Agency				*UNDCP*				*Total*
	General-purpose	*Special-purpose*	*Total*	*General-purpose*	*Special-purpose*	*Total*	*%*	*General-purpose*	*Special-purpose*	*Total*	*%*	*Amount*	*%*
A. UNDCP implementation													
UNDCP	4 152 443	69 638 799	73 791 242	3 002	1 483 553	1 486 555	2.0	307 216	7 314 205	7 621 421	10.3	9 107 976	12.3
B. Agency implementation													
United Nations entities													
UNOPS	21 005	14 711 082	14 732 087	1 575	1 103 332	1 104 907	7.5	1 155	809 110	810 265	5.5	1 915 172	13.0
United Nations specialized agencies													
FAO	—	6 857 054	6 857 054	—	733 594	733 594	10.7	—	157 822	157 822	2.3	891 416	13.0
ILO	—	1 129 037	1 129 037	—	115 287	115 287	10.2	—	31 488	31 488	2.8	146 775	13.0
UNICEF	—	27 963	27 963	—	2 237	2 237	8.0	—	1 398	1 398	5.0	3 635	13.0
UPU	—	16 724	16 724	—	1 087	1 087	6.5	—	1 087	1 087	6.5	2 174	13.0
WHO	—	32 753	32 753	—	4 108	4 108	12.5	—	—	—	—	4 108	12.5
Intergovernmental organizations													
ECSWPR	—	63 638	63 638	—	4 136	4 136	6.5	—	4 136	4 136	6.5	8 272	13.0
AU	—	113 039	113 039	—	4 522	4 522	4.0	—	10 174	10 174	9.0	14 696	13.0
WCO	—	538 888	538 888	—	44 113	44 113	8.2	—	25 943	25 943	4.8	70 056	13.0
Non-governmental organizations													
AKF	—	723 220	723 220	—	54 241	54 241	7.5	—	39 778	39 778	5.5	94 019	13.0
NCA	—	352 599	352 599	—	22 920	22 920	6.5	—	22 919	22 919	6.5	45 839	13.0
PROFA	—	109 423	109 423	—	3 284	3 284	3.0	—	10 943	10 943	10.0	14 227	13.0
Total B	**21 005**	**24 675 420**	**24 696 425**	**1 575**	**2 092 861**	**2 094 436**	**8.5**	**1 155**	**1 114 798**	**1 115 953**	**4.5**	**3 210 389**	**13.0**

	Programme			*Programme support cost*								
				Agency				*UNDCP*				*Total*	
	General-purpose	*Special-purpose*	*Total*	*General-purpose*	*Special-purpose*	*Total*[a]	*%*	*General-purpose*	*Special-purpose*	*Total*	*%*	*Amount*	*%*
C. National implementation													
Government	602	22 985 664	22 986 266	18	401 190	401 208	1.7	12	486 896	486 908	2.1	888 116	3.9
Total C	**602**	**22 985 664**	**22 986 266**	**18**	**401 190**	**401 208**	**1.7**	**12**	**486 896**	**486 908**	**2.1**	**888 116**	**3.9**
Total A, B and C	**4 174 050**	**117 299 883**	**121 473 933**	**4 595**	**3 977 604**	**3 982 199**	**3.3**	**308 383**	**8 915 899**	**9 224 282**	**7.6**	**13 206 481**	**10.9**

[a] Projects executed by UNDCP field offices receive some administrative assistance from UNDP. In some cases, therefore, a small percentage of support cost is shared with UNDP to compensate for its support.

Schedule 4
Biennial infrastructure budget for the biennium 2004-2005

(United States dollars)

Item	*Expenditure 2002-2003*	*Budget 2004-2005*	*Expenditure 2004-2005*			*Unencumbered balance 31 December 2005*
			Disbursements	*Unliquidated obligations*	*Total*	
By appropriation line						
Programme support	17 577 854	20 799 300	20 563 169	179 342	20 742 511	56 789
Country level	5 561 246	9 726 600	9 726 754	66 922	9 793 676	(67 076)
Headquarters						
Subtotal	**23 139 100**	**30 525 900**	**30 289 923**	**246 264**	**30 536 187**	**(10 287)**
Management and administration	9 819 980	10 906 300	10 619 641	351 618	10 971 259	(64 959)
Total	**32 959 080**	**41 432 200**	**40 909 564**	**597 882**	**41 507 446**	**(75 246)**
By location						
Country level	17 577 854	20 799 300	20 563 169	179 342	20 742 511	56 789
Headquarters	15 381 226	20 632 900	20 346 395	418 540	20 764 935	(132 035)
Total	**32 959 080**	**41 432 200**	**40 909 564**	**597 882**	**41 507 446**	**(75 246)**
By object of expenditure						
Staff and other personnel costs	24 491 914	31 481 800	31 242 036	341 563	31 583 599	(101 799)
Travel	1 275 510	1 491 200	1 528 834	25 636	1 554 470	(63 270)
Contractual services	719 039	1 503 200	913 623	60 812	974 435	528 765
Operating expenses	3 053 545	3 102 000	3 830 774	47 475	3 878 249	(776 249)
Acquisitions	1 133 460	1 536 100	1 279 804	18 542	1 298 346	237 754
Fellowships, grants, other	2 285 612	2 317 900	2 114 493	103 854	2 218 347	99 553
Total	**32 959 080**	**41 432 200**	**40 909 564**	**597 882**	**41 507 446**	**(75 246)**
By funding source						
Special-purpose funds (schedule 3 and note 2, subparagraph (1))	7 200 429	9 828 000	9 420 938	—	9 420 938	407 062
General-purpose funds	25 758 651	31 604 200	31 488 626	597 882	32 086 508	(482 308)
Total	**32 959 080**	**41 432 200**	**40 909 564**	**597 882**	**41 507 446**	**(75 246)**

Schedule 5

Operating funds advanced to executing agencies as at 31 December 2005

(United States dollars)

Executing agencies		*Operating funds with agencies*				*Operating funds with agencies*	
		1 January 2004 *a*	*Advances* *b*	*Miscellaneous income* *c*	*Disbursements* *d*	*31 December 2005* *a+b+c-d*	*31 December 2005* *a+b+c-d*
United Nations entities	CICP	14 783	—	—	—	14 783	—
	UNDP	13 400 926	76 421 693		(84 931 841)	4 890 778	—
	UNFPA	8 433	—	—	—	8 433	—
	UNICEF	(9 513)	39 713	—	(30 200)	—	—
	UNOPS	681 429	15 719 070	—	(16 778 584)	—	(378 085)
United Nations specialized agencies	FAO	260 665	7 547 150	48 946	(7 590 648)	266 113	—
	ILO	115 092	1 136 450	2 786	(1 244 324)	10 004	—
	IMO	6 763	—	—	—	6 763	—
	UPU	65 321	(47 510)	—	(17 811)	—	—
	WHO	(35 502)	206 650	20 201	(146 711)	44 638	—
Intergovernmental organizations	AU	56 400	—	—	(117 561)	—	(61 161)
	ECSWPR	—	90 000	—	(59 205)	30 795	—
	WCO	52 365	299 200	—	(583 001)	—	(231 436)
Non-governmental organizations	AKF	—	733 969	—	(776 425)	—	(42 456)
	CAMH	(14 241)	—	—	—	—	(14 241)
	GILEAD	175 080	(175 080)	—	—	—	—
	IFND	70 468	(70 468)	—	—	—	—
	NCA	(112 360)	487 850	—	(375 519)	—	(29)
	PROFA	1 783	109 500	2 818	(112 707)	1 394	—
	WC	99	—	—	—	99	—
	WSB	11 144	—	—	—	11 144	—
Total		**14 749 135**	**102 498 187**	**74 751**	**(112 764 537)**	**5 284 944**	**(727 408)**

Notes to the financial statements

Note 1
Statement of aims

The United Nations Office on Drugs and Crime aims to implement the Organization's drug programme and crime programme in an integrated manner, addressing the interrelated issues of drug control, crime prevention and international terrorism in the context of sustainable development and human security. Through its drug programme, the Office serves as the central drug control entity with exclusive responsibility for coordinating and providing effective leadership for all United Nations drug control activities and serves as the repository of technical expertise in international drug control for the Secretariat of the United Nations, including its regional commissions, and other United Nations organs, as well as Member States, and in this capacity advises them on questions of international and national drug control. The Fund of the United Nations International Drug Control Programme supports technical cooperation programmes and projects in the field of drug control.

Note 2
Accounting policies

The significant accounting policies of the Fund of the United Nations International Drug Control Programme are set out below:

(a) *Rules and procedures*. The accounts of the Fund are maintained in accordance with the Financial Regulations of the United Nations, its own Financial Rules and in conformity with the United Nations system common accounting standards (A/48/530, annex) as recognized by the General Assembly in its resolution 48/216 C of 23 December 1993 and subsequent revisions;

(b) *Accounting convention*. The accounts are prepared on a historical cost basis, modified to the extent that the cost of all property acquired is charged as an expense in the year of purchase. The financial period is a biennium and consists of two consecutive calendar years;

(c) *Contingent liabilities*. The United Nations accounting standard on end-of-service benefits (and post-retirement benefits) requires that liabilities in respect of the above should be provided for in the accounts to the extent required by the financial policies of the Organization. Insofar as such liabilities are not fully provided for, appropriate disclosure should be made in the notes to the financial statements and the total estimated liabilities quantified where possible;

The Fund has not specifically recognized liabilities for after-service health insurance costs, which will be owed when staff members leave the Organization. Such payments are budgeted for in the infrastructure budget and in the programme budget, and the actual costs incurred in each financial period are reported as current expenditures. In order to obtain a better understanding of the financial magnitude of the Organization's liability, an actuarial estimate is being made of post-retirement health insurance for the year 2004-2005. In the meantime, a valuation is made of the post-retirement health insurance costs to be borne by the Organization under the infrastructure budget as at 31 December 2005, for all current retirees participating in the scheme and active employees eligible to join the scheme on that date. A contingency of $1,351,170 (subject to actuarial revaluation), representing the present value of the

costs that would be incurred by the Organization as at 31 December 2005, is shown under note 16 (operational reserve);

The separation from service of staff members under the Fund is in accordance with the United Nations Staff Rules, Chapter IX (Separation from service). Separation benefits under the Rules cover terminal indemnity, repatriation grant, commutation of accrued annual leave up to a maximum of 60 days and other related expenses. Provision for repatriation grant entitlements is calculated on the basis of 8 per cent of net base pay for all personnel funded from the Fund (note 15). Under the Fund, any contingent liabilities for project staff are budgeted for under the specific projects that those staff members are charged to. For all other separation entitlements not specifically provided for, a contingent amount was included in the operational reserve (note 16) on the basis of applying staff rule 109 for 221 posts authorized in the final infrastructure budget for 2004-2005, of which 210 were encumbered as at 31 December 2005. Regarding post-retirement benefits, the Fund participates in the United Nations Joint Staff Pension Fund (see note 20), in whose financial statements details of those benefits are disclosed;

(d) *Unliquidated obligations*. Unliquidated obligations are expenditures based on firm obligations entered into, but not disbursed, in the financial period. Unliquidated obligations for the current period in respect of all technical cooperation activities remain valid for 12 months following the end of the period to which they relate;

(e) *Special-purpose contributions*. Special-purpose contributions are recorded as income when received. For large special-purpose contributions received in advance, income is deferred to future periods as otherwise their exceptional size and nature would materially distort operational results and fund balances;

(f) *General-purpose contributions*. Until 2001, general-purpose contributions were recorded as income on the basis of written pledges. Effective 1 January 2002, general-purpose contributions are recorded as income when received in order to apply consistently the accounting policy on the recording of income in trust funds and to recognize all contributions income on a more prudent basis;

(g) *Miscellaneous income*. Refunds of expenditures charged to prior financial periods, net gains on exchange and proceeds from the sale of surplus property are credited to miscellaneous income;

(h) *Interest income*. Interest income is based only on amounts received and accrued from cash, term deposits and investments relating to the financial period. Interest due from cash, term deposits and investments made in the financial period but not maturing until future periods is recorded as accounts receivable;

(i) *General-purpose and special-purpose funds*. General-purpose funds arise from income that is not earmarked for a specific purpose or project. They are used to fund the approved biennial infrastructure budget and those programme activities not funded by special-purpose funds. Special-purpose funds arise from income that is earmarked either for specific programmes and projects or for purposes within broader geographical and thematic sectors;

(j) *Cash and term deposits*. Funds on deposit in interest-bearing bank accounts, time deposits and call accounts that are immediately available or will be maturing within 12 months of the period end date are shown in note 11 separately

from term deposits maturing after 12 months of the period end date. All term deposits are placed in line with the United Nations investment policies and guidelines;

(k) *Investments*. In line with United Nations investment policies and guidelines, temporary surpluses are placed in securities such as triple AAA-rated bonds or notes based on cash-flow requirements and taking into account investment bids received at the time of placement. Since July 2000, surplus funds in excess of current needs are placed in the United Nations investment pool (for offices away from Headquarters) and managed through investment pooling. In July 2005, the investment pool was diversified to include investments in euro and in United States dollars. Details of those investments, shown at cost, are disclosed in note 12. Short-term investments with a book value of $20,223,489 had a market value of $19,998,682 as at 31 December 2005;

(l) *Translation of currencies*. The financial statements of the Fund are presented in United States dollars, which is the currency best suited to its operations. As per United Nations accounting standards, transactions in currencies other than United States dollars are recorded in United States dollars by applying the United Nations operational rate of exchange at the time of the transaction. The policy for translating balance sheet items maintained in other currencies is also in accordance with United Nations accounting standards. For monetary items (that is, money held and assets and liabilities and any other balances to be received or paid in fixed or determinable amounts of money) and non-monetary items carried at fair value in accounts maintained in other currencies, the translation into United States dollars is done at the applicable United Nations rates of exchange in effect as at the date of the financial statements. Non-monetary items carried at historical cost in other currencies are translated using the United Nations operational rate of exchange at the date of the transaction. On the closing of the accounts at the end of each financial period, if the balance of the exchange accounts reflects a net loss on exchange, it is debited to miscellaneous income or to the budgetary account. If there is a net gain, this is credited to miscellaneous income;

(m) *Programme support costs*. In accordance with United Nations practice and as authorized by its governing body, the Commission on Narcotic Drugs, the Fund charges a programme support rate of up to 13 per cent for programme and project execution. In case the programme or project is shared by the Fund and an associated agency, programme support charges are also accordingly shared between both organizations with a combined amount not exceeding 13 per cent. For nationally executed programmes and projects, a maximum of 5 per cent is charged for programme support. Programme support costs paid in the biennium to executing agencies under this arrangement are charged to programme expenditure in the financial statements since they constitute an outflow of funds from the organization. Programme support costs retained by the Fund under this arrangement are not charged to programme expenditure since they have been incurred under the biennial support budget. These are shown both as support cost income and support cost charges and are offset by a consolidation elimination (see statement 1). Full details of the amounts retained by the Fund are disclosed by funding source in schedule 3. The amount retained out of programme activities funded by special-purpose income, however, is shown as funding part of the infrastructure budget being the effective recovery of these costs through the programme support arrangement and amounting to $8,915,899 for 2004-2005 ($6,920,429 for 2002-2003);

(n) *Refunds to donors*. In accordance with the terms and conditions stipulated in funding agreements, donors are refunded amounts surplus to the requirements of specific projects that are completed.

Note 3
Prior period adjustment

Despite previously certified financial reports from UNDP, project and support budget accounts that were closed or did not have sufficient funds were reported retroactively by UNDP during the biennium 2002-2003 as $976,363 of previously unreported expenditure. In 2002-2003, those items were provided for against items kept in suspense subject to the necessary clearances, which were obtained in 2004-2005. Accordingly, that amount is deducted from provisions (see note 9 (d) below) and charged as prior period expenditure.

Note 4
Regular budget expenditure

The total expenditure of $167,430,449 in statement I does not include the following amounts for 2004-2005 financed from the regular budget of the United Nations (in United States dollars):

Expenditure	*2004-2005*	*2002-2003*
Staff and other personnel costs	16 840 031	14 769 268
Travel on official business	1 742 527	1 455 149
Contractual services	1 147 106	1 075 967
General operating expenses	628 599	318 941
Acquisitions	527 222	336 262
Fellowships, grants, others	89 885	47 922
Total	**20 975 370**	**18 003 509**

Note 5
Public donations

Public donations received in 2004-2005 amounted to (in United States dollars):

Donor	*2004-2005*	*2002-2003*
Asian Development Bank	15 629	—
COPARMEX, Mexico	110 000	—
Drug Abuse Prevention Centre, Japan	334 969	369 389
Financial Transactions and Reports Analysis Centre of Canada	123 920	232 883
Human Security Trust Fund	1 588 940	1 468 119
International Hospitality and Conference Service Association, Japan	—	100 000
Islamic Solidarity Fund	—	10 000
Lions Club, Japan	—	12 000
Lions Club, Luxembourg	—	23 096

Donor	*2004-2005*	*2002-2003*
Organization of American States	14 717	—
OPEC Fund	40 000	70 000
Smithers Foundation	21 470	—
UNDP China	76 000	42 750
UNDP Central Asia	450 159	—
UNDP Myanmar	739 627	151 620
UNICRI	78 170	—
University of California	63 700	—
UPU	21 612	—
Total	**3 678 913**	**2 479 857**

Note 6
Interest income

Total interest earned in 2004-2005 amounted to $3,707,136 ($5,050,215 in 2002-2003). Special-purpose and general-purpose funds are not invested separately. Until 1995, the total interest income from investments was apportioned between general-purpose and special-purpose funds in accordance with the ratio of their respective average fund balance. However, the amount of interest apportioned to the special-purpose fund needs to be assigned more precisely to the individual trust funds comprising the fund balance. In addition, not every trust fund agreement specifies a requirement to accrue interest or specially account for it. From 1996 onwards, therefore, where donor funding arrangements specifically require accruing interest or donors have otherwise indicated a requirement for an account of accumulated interest, the relevant special-purpose trust fund has been credited interest on the unspent balance at the end of 2004 and 2005. On that basis, in 2004-2005, interest income of $887,560 is assigned to special-purpose trust funds as per specific donor requirements. The balance of $2,614,576 interest earned for 2004-2005 is credited to the general-purpose fund.

Note 7
Miscellaneous income

Total miscellaneous income in 2004-2005 (in United States dollars) amounted to:

Miscellaneous income	*2004-2005*	*2002-2003*
Sale proceeds from drug identification kits	164 410	21 245
Refund of prior year expenditure	62 574	—
Net gain/(loss) on exchange	(2 448 047)	918 490
Other income	77 331	190 329
Total	**(2 143 732)**	**1 130 064**

In 2004-2005, a net exchange loss of $2,448,047 was recorded in the conversion of United States dollars into euro for investment purposes and their

revaluation back into United States dollars at 31 December 2005 as per the accounting policy stated in subparagraph (1) of note 2 above.

Note 8
Inter-fund adjustments

Adjustments between funds included (in United States dollars):

	General-purpose	*Special-purpose*
Prior year expenditure now charged to general-purpose funds as donors declined to fund project expenditure they had previously pledged from special-purpose funds.	(140 496)	140 496
Total	**(140 496)**	**140 496**

Note 9
Net change in provisions

A net increase of $632,654 in provisions is debited to net income for 2004-2005. This increase is represented by the following changes in provisions, as shown in note 15 below, against known or potential liabilities:

(a) A provision of $669,104 was created in 2002-2003 for outstanding advances to Governments for nationally executed projects. A total of $148,587 of that provision has been reduced by partial clearance of those advances to expenditure during 2004-05. However, a further provision of $729,069 is required to cover a total of $1,249,586 advances still reported as outstanding at 31 December 2005 for nationally executed projects. Since those projects have already been completed with available funds, a provision is required to cover advances that may not be recoverable owing to net exchange rate losses and residual expenditure. This results in a net increase of $580,482 in provisions for outstanding advances to Governments for nationally executed projects;

(b) A provision of $1,187,587 is made against outstanding pledges that may not be paid and expenditures that may be disallowed for projects under verification by the European Commission;

(c) A provision is made for $86,496 of expenditure reported by UNDP in 2004 which cannot be assigned to projects and is being kept in suspense;

(d) During 2004-2005, provisions of $976,363 against items kept in suspense were cleared to expenditure upon receipt of further evidence and relevant information and are shown as prior period charges (see note 3 above);

(e) During 2004-2005, provisions of $245,548 for operating balances with executing agencies were reduced owing to the write-off of those balances, which had become unrecoverable.

Note 10
Fund balances

Fund balances represent the unexpended resources of the Fund as at 31 December 2005. Net changes in those balances during 2005 and future commitments against them are summarized below (in United States dollars):

Changes in fund balances	*General-purpose*	*Special-purpose*	*Total*
Total fund balance as at 1 January 2004	10 969 143	52 171 784	63 140 927
Net changes during 2004-2005 (statement I)	(4 548 306)	3 237 183	(1 311 123)
Total fund balance as at 31 December 2005	6 420 837	54 408 967	61 829 804
Ongoing support and project commitments	6 420 837	54 408 967	61 829 804
Balance as at 31 December 2005 for future programme activities			

Note 11
Cash and term deposits

Cash included (in United States dollars):

Cash and term deposits	*As at 31 December 2005*	*As at 31 December 2004*
Interest-bearing bank deposits (note 2, subparagraph (j))	4 918 502	9 101 266
Total	**4 918 502**	**9 101 266**

Note 12
Investments

Investments included (in United States dollars):

Investments	*As at 31 December 2005*	*As at 31 December 2004*
United Nations investment pool (for offices away from headquarters) (note 2, subparagraph (k))		
United States dollars	56 818 705	57 753 502
Euro (10,286,225)	12 173 048	—
Total	**68 991 753**	**57 753 502**

Note 13
Other accounts receivable

Accounts receivable included (in United States dollars):

Accounts receivable	*As at 31 December 2005*	*As at 31 December 2004*
Education grant advances	306 411	214 145
Travel advances	2 802	8 594
Salary advances	38 406	36 525
Other receivables and deferred charges	752 363	172 749
Total	**1 099 982**	**432 013**

Note 14
Unliquidated obligations

Unliquidated obligations comprised the following (in United States dollars):

Unliquidated obligations	*As at 31 December 2005*	*As at 31 December 2003*
Programme budget		
Headquarters	1 570 938	1 087 470
Field-level	1 275 786	2 030 020
Biennial infrastructure budget		
Headquarters	597 658	720 844
Field-level	224	—
Total	**3 444 606**	**3 838 213**

Note 15
Provisions and other accounts payable

Accounts payable included (in United States dollars):

Provisions and accounts payable	*As at 31 December 2005*	*As at 31 December 2003*
Provisions		
Provision for operating balances with executing agencies which are unlikely to be recovered (note 9)	—	245 548
Provision for 2004 expenditure reported by UNDP which is kept in suspense	86 496	—
Provision for outstanding pledges from the European Commission for completed projects	1 187 587	—
Provision for extraordinary charges claimed by UNDP which were kept in suspense (note 9, subparagraph (d))	—	976 363
Provision for outstanding advances to Governments for nationally executed projects which are completed (note 9)	1 249 586	669 104
Subtotal	**2 523 669**	**1 891 015**
Accounts payable		
Repatriation grant accruals (note 2, subparagraph (c))	2 160 500	1 128 657
Experts payroll and other field expenses	17 350	217 942
Imprest advance payable to ESCAP	40 002	—
Miscellaneous	46 539	60 921
Subtotal	**2 264 391**	**1 407 520**
Total	**4 788 060**	**3 298 535**

Note 16
Operational reserve

Until 1995, an operating reserve of 15 per cent of annual expenditures (adjusted for programme support costs) was maintained amounting to $9,486,700 (General-purpose: $3,446,200 and Special-purpose: $6,040,500) as at 31 December 1995. Upon the recommendation of the Advisory Committee on Administrative and Budgetary Questions, this arrangement was reviewed in 1996 and, in the light of actual reserve requirements, the Commission on Narcotic Drugs, as the governing body of the Fund, approved the creation instead of a consolidated reserve of $12,000,000 ($11,500,000 from the general-purpose fund balance and $500,000 from the programme support reserve). The operational reserve level has been maintained at $12,000,000 during 2004-2005 with no movement in the reserve.

The operational reserve is estimated to cover the following contingencies (in United States dollars):

Contingency	*Headquarters*	*Country operations*	*Total*
1. Staff separation cost estimates as per the accounting policy on contingent liabilities (note 2, subparagraph (c))	8 390 214	1 215 119	9 605 333
Less: Repatriation grant accruals already provided for:			
Programme staff (note 16)	(1 471 516)	—	(1 471 516)
Infrastructure staff (note 16)	(688 984)	—	(688 984)
Subtotal	**6 229 714**	**1 215 119**	**7 444 833**
2. After-service health insurance (note 2, subparagraph (c))	1 351 170	—	1 351 170
3. Balance to cover unforeseen shortfalls, uneven cash flows, unplanned costs and other final contingencies			3 203 997
Total			**12 000 000**

Note 17
Special-purpose fund balance

As per financial rule 6.5 of the Fund, special-purpose contributions to project activities are treated as funds held in trust. The application of those funds to specific project activities is reported separately to donors. The consolidated balance shown in statement II, therefore, consists of a series of trust funds. In some cases, where expenditures exceed collections and any accrued interest, the balances are negative. Those negative balances have been funded out of the working capital as per financial rule 6.3 of the Fund and are covered by outstanding special-purpose pledges. The details of the negative balances are shown below:

Donor	*Projects involved*	*Fund balance*	*Value of outstanding pledges*
Bolivia	BOL/C23, D80	(91 688)	239 828
Canada	CAR/G96, GLO/900, B79, G80, H42, H43, H92, I71, PER/D96, RAS/G22	(551 368)	730 769
Colombia	COL/426, 636, 926	(327 294)	574 419
European Commission	BHA/907, BGD/779-781, CAR/857, B16, B95, C01, C34, C49, EGY/518, 751, 771, GLO/565, IND/808, URA/E53, LAO/866, LEB/763, 813, MOZ/C47, RAF/E13, RAS/938, B38, RER/D41, C38, RUS/F18, TRI/910	(4 262 069)	12 987 844
OPEC Fund	BOL/D80	(40 000)	2 040 000
Peru	PER/D06	(25 705)	1 392 535
Spain	BOL/E07, GLO/H43, PER/D04	(107 209)	1 147 575
Switzerland	IRA/E53	(75 848)	78 125
United Kingdom of Great Britain and Northern Ireland	RAS/G44	(281 780)	612 908
United States of America	GLO/C93, GLO/H43	(281 412)	28 052 267
USAID	COL/F31, H45, H48, H49, H70	(1 217 940)	10 928 562
Total negative fund balance		**(7 262 313)**	**58 784 832**

Note 18
Non-expendable inventory

In accordance with the accounting policy disclosed in note 2, subparagraph (b), non-expendable equipment held by the Fund is not shown as an asset in the statement of assets and liabilities. As per inventory records, the purchase cost of inventory items as at 31 December 2005 was (in United States dollars):

Location of non-expendable equipment	*As at 31 December 2003*	*Acquisitions 2004-2005*	*Disposals 2004-2005*	*As at 31 December 2005*
Headquarters				
Project inventory	1 081 438	62 913	(138 518)	1 005 833
Office inventory	968 395	137 384	(90 168)	1 015 611
Subtotal	**2 049 833**	**200 297**	**(228 686)**	**2 021 444**
Country offices				
Project inventory	10 207 277	12 237 295	(11 264 208)	11 180 364
Office inventory	2 106 921	794 839	(470 355)	2 431 405
Subtotal	**12 314 198**	**13 032 134**	**(11 734 563)**	**13 611 769**
Total	**14 364 031**	**13 232 431**	**(11 963 249)**	**15 633 213**

Note 19
In-kind contributions

In addition to cash contributions (schedule 1), the Fund also received voluntary contributions in kind with an estimated value of $52,735,248 during 2004-2005. Most of those contributions were project-related and were raised in the field. In accordance with paragraph 34 of the United Nations system accounting standards, revision V, the fair valuation of those contributions was determined on donors' valuations, unless there were significant differences from other valuation indicators available to UNODC, such as market rates. Conversion to United States dollars was made at the United Nations operational rate of exchange at the time the contribution was received, unless there was a material difference between the local amount provided and the actual market value.

Note 20
Disclosure as to participation in the United Nations Joint Staff Pension Fund

The United Nations Office on Drugs and Crime is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the Office to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly, together with its share of any actuarial deficiency payments that may become payable pursuant to article 36 of the Regulations of the United Nations Joint Staff Pension Fund.

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